



BEFORE THE ARIZONA CORPORATION

COMMISSIONERS

NICK MYERS – CHAIR  
RACHEL WALDEN – VICE CHAIR  
LEA MÁRQUEZ PETERSON  
KEVIN THOMPSON  
RENÉ LOPEZ

Arizona Corporation Commission

DOCKETED

MAR 10 2026

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF PICACHO WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. W-03528A-25-0056

IN THE MATTER OF THE APPLICATION OF PICACHO SEWER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

DOCKET NO. SW-03709A-25-0057

IN THE MATTER OF THE APPLICATION OF PICACHO WATER COMPANY, AN ARIZONA CORPORATION, FOR AUTHORITY TO: (1) ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED \$4,000,000; AND (2) ENCUMBER ITS REAL PROPERTY AND PLANT AS SECURITY FOR SUCH INDEBTEDNESS.

DOCKET NO. W-03528A-25-0096

IN THE MATTER OF THE APPLICATION OF PICACHO SEWER COMPANY, AN ARIZONA CORPORATION, FOR AUTHORITY TO: (1) ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED \$8,000,000; AND (2) ENCUMBER ITS REAL PROPERTY AND PLANT AS SECURITY FOR SUCH INDEBTEDNESS.

DOCKET NO. SW-03709A-25-0097

DECISION NO. 81674

**OPINION AND ORDER**

DATES OF HEARING: November 17-18, 2025  
PLACE OF HEARING: Phoenix, Arizona  
ADMINISTRATIVE LAW JUDGE: Sarah N. Harpring  
APPEARANCES: Jay L. Shapiro, SHAPIRO LAW FIRM, P.C, on behalf of Picacho Water Company and Picacho Sewer Company;  
Court Rich, ROSE LAW GROUP PC, on behalf of Scott McBeth and Raul Salmon; and

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Bridget Humphrey, Senior Associate General Counsel,  
and Robert Ridenour, Senior Associate General Counsel,  
Office of General Counsel, on behalf of the Arizona  
Corporation Commission's Utilities Division.

## CONTENTS

1	DISCUSSION .....	5
2	<b>I. Parties</b> .....	5
3	<b>II. Procedural History</b> .....	6
4	<b>III. Utilities, Systems, &amp; Regulatory Compliance</b> .....	15
5	<b>A. General Background</b> .....	15
6	<b>B. Picacho Water</b> .....	18
7	<b>C. Picacho Sewer</b> .....	20
8	<b>IV. Applications – Rates &amp; Financing</b> .....	22
9	<b>A. Actual &amp; Pro Forma Capital Structures</b> .....	22
10	<b>B. Financing Applications</b> .....	22
11	<b>C. Rate Applications</b> .....	23
12	<b>1. Cost of Equity, Cost of Debt, &amp; Weighted Average Cost of Capital (“WACC”)</b> .....	24
13	<b>2. Picacho Water – Initial Water Rate Application Proposals</b> .....	26
14	<b>3. Picacho Sewer – Initial Sewer Rate Application Proposals</b> .....	31
15	<b>V. Staff’s Initial Positions</b> .....	33
16	<b>A. Picacho Water Rates &amp; Financing</b> .....	33
17	<b>B. Picacho Sewer Rates &amp; Financing</b> .....	40
18	<b>VI. Picacho &amp; Staff’s Final Unified Positions</b> .....	43
19	<b>VII. Intervenors’ Positions</b> .....	54
20	<b>VIII. Arguments &amp; Resolution of Each</b> .....	57
21	<b>A. Manner of Determining Revenue Requirement – Return on Rate Base vs. Operating</b>	
22	<b>Margin</b> .....	61
23	<b>1. Picacho &amp; Staff</b> .....	61
24	<b>2. Intervenors</b> .....	63
25	<b>3. Resolution</b> .....	64
26	<b>B. Capital Structure</b> .....	65
27	<b>1. Picacho &amp; Staff</b> .....	65
28	<b>2. Intervenors</b> .....	66
	<b>3. Resolution</b> .....	68
	<b>C. Imputed CIAC and AIAC</b> .....	72
	<b>1. Picacho &amp; Staff</b> .....	72
	<b>2. Intervenors</b> .....	73
	<b>3. Resolution</b> .....	74
	<b>D. Cost of Equity &amp; WACC</b> .....	75
	<b>1. Picacho &amp; Staff</b> .....	75

1        2.    **Intervenors** ..... 76  
2        3.    **Resolution** ..... 77  
3        E.    **Rate Phase-In** ..... 79  
4        1.    **Picacho & Staff** ..... 79  
5        2.    **Intervenors** ..... 80  
6        3.    **Resolution** ..... 81  
7        **IX.    Rates, Tariffs, Depreciation Rates, Deferred Depreciation, Rate Case Expenses. &**  
8        **Financings** ..... 83  
9        A.    **Picacho Water Rates & Charges** ..... 83  
10       B.    **Picacho Sewer Rates & Charges** ..... 88  
11       C.    **Tariff Requirements** ..... 89  
12       D.    **Depreciation Rates** ..... 89  
13       E.    **Deferral of Depreciation** ..... 89  
14       F.    **Rate Case Expenses** ..... 90  
15       G.    **Financings** ..... 90  
16       **FINDINGS OF FACT** ..... 90  
17       **CONCLUSIONS OF LAW** ..... 92  
18       **ORDER** ..... 93  
19  
20  
21  
22  
23  
24  
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1 **BY THE COMMISSION:**

2 \* \* \* \* \*

3 Having considered the entire record herein and being fully advised in the premises, the Arizona  
4 Corporation Commission (“Commission”) finds, concludes, and orders that:

5 **DISCUSSION**

6 **I. Parties**

7 In addition to the Commission’s Utilities Division (“Staff”), the parties to this matter are  
8 applicants Picacho Water Company (“Picacho Water”) and Picacho Sewer Company (“Picacho  
9 Sewer”) (referred to jointly herein as “the Picacho utilities” and “Picacho”) and intervenors Raul  
10 Salmon and Scott McBeth (referred to jointly herein as “the Intervenors”).

11 The Picacho utilities are public service corporations wholly owned by JW Water Holdings, LLC  
12 (“JW Water”), a Colorado limited liability company, which in November 2024 acquired all the stock  
13 of the Picacho utilities and six other utilities previously owned by Robson entities<sup>1</sup> (the Picacho utilities  
14 and the six other utilities are referred to collectively as the “Robson utilities”).<sup>2</sup> Immediately before  
15 JW Water acquired the Robson utilities’ stock, CVC DIF, a private equity investment fund company,  
16 acquired a large share of ownership in JW Water, providing funding for the purchase of the Robson  
17 utilities’ stock.<sup>3</sup> As a result of these transactions, JW Water is now owned by CVC DIF and Jason  
18 Williamson in an arrangement Mr. Williamson refers to as a “partnership” that provides the utilities  
19 owned by JW Water with access to capital.<sup>4</sup> Mr. Williamson has owned and operated utility companies  
20 in Arizona for approximately 15 years and is ultimately responsible for the day-to-day operations of

21 \_\_\_\_\_  
<sup>1</sup> The Robson entities are referred to generically because individual company names were not provided.

22 <sup>2</sup> Tr. at 65, 121, 177-180, 198; Ex. A-5 at 4; Ex. A-6 at 4; Ex. A-9 at 2-4. JW Water purchased the stock of the Robson  
23 utilities as a package deal. (Tr. at 198.) Counsel for Picacho stipulated on the record, on behalf of JW Water, that the  
24 outcome of this rate case has no impact on the purchase price paid for the stock of Picacho or any other of the JW Water-  
25 acquired Robson utilities. (Tr. at 182-184.) As of the hearing in this matter, JW Water and the Robson entities were in the  
26 process of entering agreements concerning the extent of the Robson entities’ (as developers) obligation to pay for additional  
27 plant to serve future growth in the JW-Water-acquired Robson utilities’ service areas. (Tr. at 189-192.) Those agreements  
28 do not address any plant included in rate base in this matter. (Tr. at 205.)

<sup>3</sup> Tr. at 79-80, 178-180. CVC DIF is an investment fund that pension funds and insurance companies use as an investment  
vehicle. (Tr. at 178.) Picacho witness Thomas Bourassa likened it to a mutual fund that holds a portfolio and manages the  
money invested in it on behalf of the investors to earn a return. (Tr. at 348.)

<sup>4</sup> Tr. at 178; Ex. A-9 at 8. Mr. Williamson clarified that the shares of JW Water, both his and those controlled by CVC DIF,  
are owned by another U.S.-based holding company. (Tr. at 208.) Mr. Williamson is the CEO of JW Water and is one of  
three members of its board of directors; the other two seats are held by CVC DIF employees. (Tr. at 208, 216.) According  
to Mr. Williamson, JW Water makes decisions about the utilities. (Tr. at 216.)

1 18 utilities now owned and operated by JW Water.<sup>5</sup>

2 Mr. Salmon is a retiree, a resident of Robson Ranch, and a residential customer of the Picacho  
3 utilities.<sup>6</sup> Mr. Salmon initially testified that Robson Ranch is a retirement community and subsequently  
4 clarified that it is an age-restricted community for those who are at least 55 years of age.<sup>7</sup> Mr. Salmon  
5 moved to Robson Ranch approximately 2.5 years ago.<sup>8</sup>

6 Mr. McBeth did not produce any evidence herein but is understood to be a resident of Robson  
7 Ranch and a residential customer of the Picacho utilities.<sup>9</sup>

## 8 **II. Procedural History**

9 On March 19, 2025, in Docket No. W-03528A-25-0056 (“Picacho Water Rates Docket”),  
10 Picacho Water filed with the Commission an application for a determination of the fair value of its  
11 utility plant and property and for increases in its rates and charges for utility service based thereon  
12 (“water rate application”). The water rate application included the Direct Testimony of Jill Schwartz,  
13 Vice President of Rates and Regulation for JW Water; Mr. Williamson, Chief Executive Officer  
14 (“CEO”) of JW Water and President of Picacho Water; Justin Hanson, employed by JW Water as  
15 General Manager of the Picacho utilities and another affiliate; Cherishe Barbee, employed by JW Water  
16 as a Senior Rates and Accounting Analyst; and Thomas Bourassa, a Certified Public Accountant and  
17 self-employed consultant.

18 On the same date, in Docket No. SW-03709A-25-0057 (“Picacho Sewer Rates Docket”),  
19 Picacho Sewer filed an application for a determination of the fair value of its utility plant and property  
20 and for increases in its rates and charges for utility service based thereon (“sewer rate application”).  
21 The sewer rate application included Direct Testimony from the same individuals who provided  
22 testimony in the water rate application.

23 On March 20, 2025, Procedural Orders regarding consent to email service were issued in the  
24 Picacho Water Rates Docket and the Picacho Sewer Rates Docket.

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25  
26 <sup>5</sup> Tr. at 193; Ex. A-9 at 1-2.

27 <sup>6</sup> Ex. RS-1 at 4.

28 <sup>7</sup> Ex. RS-1 at 4; Tr. at 384, 465.

<sup>8</sup> Tr. at 408.

<sup>9</sup> See Individual Intervention Request filed by Mr. McBeth on July 10, 2025, available on eDocket as E000045221. Official notice is taken of this filing.

1 On April 3, 2025, in the Picacho Water Rates Docket, Picacho Water filed a Notice of Errata  
2 providing replacements for the first pages of Schedules E-2 and F-1.

3 On April 3, 2025, in the Picacho Sewer Rates Docket, Picacho Sewer filed a Notice of Errata  
4 providing replacements for the first pages of Schedules E-2 and F-1.

5 On April 16, 2025, in the Picacho Water Rates Docket, Picacho Water filed a Notice of Errata  
6 providing a replacement for the first page of Schedule B-5.

7 On April 18, 2025, Staff filed in the Picacho Water Rates Docket a Sufficiency Letter stating  
8 that the water rate application had met the sufficiency requirements as outlined in Arizona  
9 Administrative Code (“A.A.C.”) R14-2-103 and that Picacho Water had been classified as a Class C  
10 utility.

11 On the same date, Staff filed a Sufficiency Letter in the Picacho Sewer Rates Docket, stating  
12 that the sewer rate application had met sufficiency requirements and classifying Picacho Sewer as a  
13 Class C utility.

14 On April 21, 2025, by Procedural Orders issued in the Picacho Water Rates Docket and the  
15 Picacho Sewer Rates Docket, a joint telephonic procedural conference was scheduled to be held on  
16 April 25, 2025.

17 On April 25, 2025, the joint telephonic procedural conference was held as scheduled, with  
18 Picacho and Staff appearing through counsel. It was determined that the Picacho Water Rates Docket  
19 and Picacho Sewer Rates Docket would be consolidated; that the hearing would be scheduled to  
20 commence on November 17, 2025; and that the timeclock would be extended accordingly.

21 On April 29, 2025, by Procedural Order, the Picacho Water Rates Docket and Picacho Sewer  
22 Rates Docket were consolidated; a hearing was scheduled to commence on November 17, 2025; and  
23 other procedural requirements and deadlines were established, including a requirement to provide  
24 prescribed public notice. Additionally, the timeclock was extended to February 20, 2026, and it was  
25 ordered that the timeclock automatically would be extended further for each hearing day as provided  
26 in A.A.C. R14-2-103(B)(11)(f).

27 On May 2, 2025, Picacho Water filed in Docket No. W-03528A-25-0096 (“Picacho Water  
28 Financing Docket”) a financing application requesting authority to issue evidence of indebtedness in

1 an amount up to \$4 million and to encumber its real property and plant as security for such indebtedness  
2 (“water financing application”).

3 Also on May 2, 2025, Picacho Sewer filed in Docket No. SW-03709A-25-0097 (“Picacho  
4 Sewer Financing Docket”) a financing application requesting authority to issue evidence of  
5 indebtedness in an amount up to \$8 million and to encumber its real property and plant as security for  
6 such indebtedness (“sewer financing application”).

7 On May 5, 2025, in the Picacho Water Financing Docket, Picacho Water filed a Motion to  
8 Consolidate Proceedings, requesting that the Picacho Water Financing Docket and Picacho Sewer  
9 Financing Docket be consolidated with the already consolidated Picacho Water Rates Docket and  
10 Picacho Sewer Rates Docket (collectively “Picacho Rates Dockets”).

11 Also on May 5, 2025, Picacho Sewer filed in the Picacho Sewer Financing Docket a nearly  
12 identical Motion to Consolidate Proceedings.

13 On May 6, 2025, in the Picacho Rates Dockets, Picacho filed a nearly identical Motion to  
14 Consolidate Proceedings.

15 On May 7, 2025, in the Picacho Rates Dockets, the Picacho Water Financing Docket, and the  
16 Picacho Sewer Financing Docket, Staff filed Responses stating that Staff did not oppose the requested  
17 consolidation.

18 On May 8, 2025, a Procedural Order was issued consolidating the Picacho Rates Dockets with  
19 the Picacho Water Financing Docket and the Picacho Sewer Financing Docket (all collectively referred  
20 to herein as “this matter”) and revising the public notice language to be provided to Picacho’s customers  
21 to include information about the water financing application and sewer financing application.

22 On June 16, 2025, Donna VanBuskirk filed an incomplete Individual Intervention Request.

23 On June 27, 2025, Brenda Allibone filed an incomplete Individual Intervention Request.

24 Late on July 1, 2025, Picacho filed a Notice of Filing including a Frequently Asked Questions  
25 sheet created by Picacho to address the “most significant misunderstandings expressed by customers  
26 submitting written public comment to date.”

27 On July 2, 2025, a Procedural Order was issued scheduling a public comment meeting to be  
28 held at the Commission’s offices in Phoenix on August 25, 2025, and requiring Picacho, by August 4,

1 2025, to provide public notice of the public comment meeting to its customers by mail, through  
2 publication in a newspaper of general circulation in the service area, and through posting in a prominent  
3 location on or accessible through the main page of its website.

4 On July 7, 2025, Mr. McBeth filed an incomplete Individual Intervention Request.

5 On July 9, 2025, Picacho filed a Notice of Filing Certification of Publication and Proof of  
6 Mailing showing that the public notice of hearing for this matter had been published in the *Casa Grande*  
7 *Dispatch* on June 5, 2025, and that Picacho had mailed the notice to its customers on June 5, 2025.

8 On July 10, 2025, Picacho filed a Notice of Filing that included a letter written by Mr.  
9 Williamson and dated July 8, 2025, which was addressed to Andrew Sutton, Mayor of Eloy, and  
10 provided Mr. Williamson's response to a letter written by Mayor Sutton to the Commissioners and  
11 dated June 11, 2025, which Mayor Sutton had emailed to Commissioner Lopez on June 12, 2025, and  
12 which Commissioner Lopez had filed in this matter on June 13, 2025.

13 On July 10, 2025, Mr. McBeth filed a revised Individual Intervention Request.

14 On July 11, 2025, Mr. Salmon filed an Individual Intervention Request along with a Consent  
15 to Email Service.

16 On July 21, 2025, by Procedural Order, Mr. McBeth and Mr. Salmon were granted  
17 intervention.<sup>10</sup>

18 On August 5, 2025, Picacho filed a Notice of Errata to replace page 3 of Schedule H-3 from the  
19 water rate application.

20 On August 18, 2025, Picacho filed a Notice of Filing Certification of Publication and Proof of  
21 Mailing showing that notice of the public comment meeting had been published in the *Casa Grande*  
22 *Dispatch* on July 19, 2025; stating that notice of the public comment meeting had been mailed on July  
23 31, 2025, to those customers receiving paper billing statements (approximately 75% of customers);  
24 stating that notice had been emailed on August 11, 2025 (which Picacho acknowledged to be late), to  
25 customers receiving electronic billing statements (approximately 25% of customers); and stating that  
26 notice had been posted on Picacho's website on August 11, 2025 (which Picacho acknowledged to be

27 \_\_\_\_\_  
28 <sup>10</sup> Ms. VanBuskirk's and Ms. Allibone's Individual Intervention Requests were deemed denied because they had failed to  
remedy the deficiencies therein after Hearing Division administrative personnel notified them of the need to do so.

1 late). Picacho stated that it would not be opposed to the scheduling of an additional public comment  
2 meeting if the Commission so chose and would provide any related notice as directed and at Picacho's  
3 own expense.<sup>11</sup>

4 On August 19, 2025, Picacho filed a Notice of Filing including copies of emails Picacho had  
5 sent on that date to Mr. Salmon, Mr. McBeth, and two Robson Ranch Homeowners Association  
6 contacts suggesting meetings between Picacho and the recipients.

7 On August 25, 2025, the public comment proceeding was held as scheduled, with Picacho and  
8 Staff appearing through counsel and Mr. Salmon appearing pro se. Mr. McBeth did not appear. During  
9 the public comment proceeding, comments were provided by 18 individuals, all of whom opposed the  
10 level of rate increases proposed for the Picacho utilities. One commenter provided exhibits, which the  
11 presiding Administrative Law Judge ("ALJ") offered to have filed in this matter.

12 On the same date, the Hearing Division filed a Memorandum along with the exhibits provided  
13 at the public comment proceeding.

14 On August 26, 2025, the Commission's Consumer Services Section filed a collection of several  
15 comments provided on this matter on August 24 and 25, 2025. Among those was a "Utilities Complaint  
16 Form"<sup>12</sup> submitted by Mr. McBeth on August 25, 2025, in which Mr. McBeth stated that he had  
17 participated as a remote listener during the public comment proceeding on August 25, 2025, and made  
18 substantive statements regarding his position in this matter. Mr. McBeth did not indicate in any way  
19 that he had provided service of his "Utilities Complaint Form" to the other parties in this matter.

20 On August 27, 2025, a Procedural Order was issued ordering that Mr. McBeth's "Utilities  
21 Complaint Form" was not to be considered a public comment in this matter, as parties are not eligible  
22 to provide public comment, and ordering all parties to ensure they provided service of all filings made  
23 by them on all other parties and to include with each filing a certification of service showing the names  
24 of the other parties and the addresses used.

25 On August 28, 2025, Rose Law Group pc filed a Notice of Appearance as counsel for Mr.  
26

27 <sup>11</sup> No additional public comment meeting was scheduled because the notice had been provided two weeks before the  
scheduled public comment meeting and another public comment meeting was to be held on the first day of hearing.

28 <sup>12</sup> This is the form used by members of the public to submit comments through the Commission's website. Those comments  
are routed to Staff's Consumer Services Section, which then files them.

1 Salmon.

2 On September 2, 2025, Mr. Salmon filed his Direct Testimony.

3 On September 3, 2025, Staff filed the Direct Testimony (non-rate design) of Brenda Perez-  
4 Palacios, Staff Public Utilities Analyst; David C. Parcell, Principal and Senior Economist of Technical  
5 Associates, Inc.; and Camryn Aten, Staff Utilities Engineer II. Staff stated that the testimony was filed  
6 a day late due to technical issues.

7 On September 16, 2025, Staff filed the Direct Testimony (rate design) of Ms. Perez-Palacios  
8 and Mr. Aten.

9 On October 8, 2025, Picacho filed the Rebuttal Testimony of Ms. Schwartz, Mr. Hanson, Ms.  
10 Barbee, and Mr. Bourassa.

11 On October 20, 2025, Rose Law Group pc filed a Notice of Appearance as counsel for Mr.  
12 McBeth and a second Notice of Appearance naming an additional attorney as counsel for Mr. Salmon.

13 On October 29, 2025, Mr. Salmon filed his Surrebuttal Testimony.

14 On October 30, 2025, Staff filed the Surrebuttal Testimony of Ms. Perez-Palacios, Mr. Parcell,  
15 and Mr. Aten.

16 On October 31, 2025, Picacho, Staff, Mr. Salmon, and Mr. McBeth filed Notices regarding their  
17 intended manner of participation in the hearing, all indicating that counsel and witnesses intended to  
18 appear in person.

19 On November 7, 2025, the Hearing Division received a request from Picacho to schedule a  
20 procedural conference regarding a discovery dispute with Mr. Salmon. In response, a telephonic  
21 procedural conference was scheduled for November 10, 2025, and Picacho was directed to contact the  
22 other parties and notify them, as required by the scheduling Procedural Order.

23 On November 10, 2025, the telephonic procedural conference was canceled at Picacho's  
24 request.<sup>13</sup>

25 On November 12, 2025, Picacho filed the Rejoinder Testimony of Ms. Schwarz, Mr. Hanson,  
26 Ms. Barbee, and Mr. Bourassa as well as its witness summaries.

27  
28 <sup>13</sup> The request was made to administrative personnel of the Hearing Division and relayed to the ALJ.

1 Also on November 12, 2025, Mr. Salmon filed his witness summary.

2 On November 13, 2025, Picacho, Staff, and Mr. Salmon filed their respective exhibits lists  
3 along with the exhibits included thereon. Staff also filed its witness summaries, and Picacho also filed  
4 a Notice of Filing Joint Issues Matrix.

5 On November 14, 2025, the pre-hearing conference was held as scheduled, with Picacho, Mr.  
6 Salmon, Mr. McBeth, and Staff appearing through counsel. Several motions were considered and ruled  
7 upon, witness scheduling and participation methods were discussed, and the parties were requested to  
8 address at hearing specific issues not fully addressed in pre-filed testimony.

9 Also on November 14, 2025, Staff filed a revised list of exhibits.

10 On November 16, 2025, Staff filed an additional exhibits list and the additional exhibits thereon.

11 On November 17, 2025, before the evidentiary hearing commenced, an additional public  
12 comment meeting was held, during which 17 individuals provided public comment, all in opposition  
13 to the requested rate increases.

14 Also on November 17, 2025, after the public comment meeting, the hearing proceeded as  
15 scheduled before a duly authorized ALJ of the Commission, with Picacho, Mr. McBeth, Mr. Salmon,  
16 and Staff appearing through counsel. During the hearing, Picacho presented exhibits and the testimony  
17 of Ms. Schwartz, Mr. Hanson, Ms. Barbee, Mr. Williamson, and Mr. Bourassa. Mr. Salmon provided  
18 exhibits and his own testimony. Mr. McBeth did not provide exhibits or testify.<sup>14</sup> Staff provided  
19 exhibits and the testimony of Mr. Parcell, Ms. Perez-Palacios, and Mr. Aten. At the conclusion of the  
20 hearing, it was determined that Picacho would file as a late-filed exhibit (“LFE”) a schedule and tariff  
21 clarifying specific rates for Picacho Water, and Staff, or Staff and Picacho jointly, were directed to file  
22 a LFE showing for Picacho Sewer what rates would be with the revenue requirement to which Staff  
23 and Picacho have agreed and with a two-year phase-in, three-year phase-in, or five-year phase-in of  
24 the rate increases (with no lost revenue for Picacho). Additionally, the parties were directed to file  
25 simultaneous closing briefs by December 19, 2025.

26 <sup>14</sup> At hearing, counsel for Mr. McBeth requested that Mr. McBeth be allowed to provide an opening statement himself.  
27 Initially, this opportunity was granted over the objections of Picacho. When it quickly became evident that Mr. McBeth  
28 was going to make assertions that had not been included in any evidence provided by him (because he provided no prefiled  
testimony or exhibits), and consistent with Picacho’s refreshed objection, Mr. McBeth was prevented from providing an  
opening statement. As a party, Mr. McBeth was ineligible to provide public comment.

1 Also on November 17, 2025, Picacho filed a Notice of Filing Revised Joint Issues Matrix, and  
2 Picacho and Mr. Salmon each filed an additional exhibits list and the additional exhibits thereon.

3 On November 18, 2025, the hearing concluded. Additionally, Staff filed an additional exhibits  
4 list and the additional exhibit thereon.

5 On November 21, 2025, Picacho filed the first required LFE, which it labeled as Exhibit A-34.

6 On December 4, 2025, a Procedural Order was issued directing Staff and Picacho, by December  
7 10, 2025, to file the second required LFE, showing the phase-in schedules, either jointly if in agreement  
8 or separately, in which case they were also ordered to provide an explanation of the points of  
9 disagreement.

10 On December 10, 2025, Picacho filed a Joint Notice of Filing Late-Filed Exhibit, which  
11 included Picacho's phase-in schedules, labeled as Exhibit A-35, and Staff's phase-in schedules, labeled  
12 as Exhibit S-13, as well as a description of Picacho and Staff's disagreements as to both the manner in  
13 which interest should accrue on forgone revenue (according to Picacho, on a monthly compounded  
14 basis through all phases until full recovery is obtained, and according to Staff, on a simple annual basis  
15 only during the phase/s when the revenue is forgone) and on the interest rate to be applied to the forgone  
16 revenue (according to Picacho, the weighted average cost of capital, and according to Staff, 6%, the  
17 rate applied to customer deposits). The Joint Notice stated that the phase-in schedules had been  
18 provided to counsel for Mr. Salmon and Mr. McBeth.

19 On December 11, 2025, a Procedural Order was issued requiring Staff and Picacho, separately  
20 or jointly, to provide to the Hearing Division, by December 15, 2025, on USB flash drive/s, their  
21 electronic phase-in schedules and the workpapers supporting their phase-in schedules and, upon  
22 request, to provide the same to each other party. The Procedural Order also admitted into evidence  
23 LFEs A-34, A-35, and S-13.

24 On December 19, 2025, Picacho, the Intervenors, and Staff filed their briefs.

25 On December 29, 2025, Staff filed a Notice of Errata to its brief.

26 On January 15, 2026, Picacho filed a Request for Telephonic Procedural Conference stating  
27 that the procedural conference was needed primarily to allow Picacho to provide an update to the parties  
28 and ALJ on the status of a new water storage tank. Picacho and Staff had agreed that the water storage

1 tank should be included in post-test-year plant for Picacho Water, provided that an Approval of  
2 Construction for the water tank was obtained before a Recommended Opinion and Order (“ROO”) was  
3 issued in this matter, and that the water tank would be removed from post-test-year plant if it was not.  
4 Additionally, Picacho expressed disapproval of Mr. McBeth’s recently having had an opinion piece  
5 published in the *Arizona Capital Times* concerning his thoughts on this matter.

6 Also on January 15, 2026, counsel for Intervenors Mr. Salmon and Mr. McBeth filed a  
7 Response in Opposition to Request for Procedural Conference stating that the procedural conference  
8 was unnecessary because the update on the storage tank would not be evidence and that Mr. McBeth  
9 has a First Amendment right to publish his opinions in a newspaper.

10 Also on January 15, 2026, a Procedural Order was issued scheduling a telephonic procedural  
11 conference to be held on January 16, 2026, to obtain the update on the status of the storage tank. The  
12 Procedural Order prohibited discussion of Mr. McBeth’s opinion piece during the procedural  
13 conference, recognizing that Mr. McBeth has a constitutional right to express his views publicly and  
14 that the newspaper has a constitutional right to publish what it sees fit to print. The Procedural Order  
15 further clarified that Mr. McBeth’s opinion piece is not considered to be public comment or evidence  
16 in this matter and will not be considered herein.

17 On January 16, 2026, the telephonic procedural conference was held as scheduled, with all  
18 parties appearing through counsel. Picacho explained that due to an unanticipated requirement to  
19 obtain a building permit from the City of Eloy for the storage tank, Picacho would be unable to obtain  
20 an Approval of Construction for the storage tank before the expected filing date for the ROO in this  
21 matter. Picacho asked when it should provide revised schedules showing the exclusion of the storage  
22 tank from post-test-year plant, and it was determined that Picacho would file a set of revised rejoinder  
23 schedules for Picacho Water, with the storage tank excluded from rate base and all flow-through results  
24 shown, before close of business on January 23, 2026. Picacho confirmed that it would coordinate with  
25 Staff to ensure Staff agreed with the revisions before the revised scheduled were filed. It was further  
26 determined that Picacho would by the same time submit to the Hearing Division an electronic copy of  
27 the revised schedules, with all worksheets included. The ALJ stated that the revised rejoinder schedules  
28 would be considered a LFE and admitted as such, to which no party objected. Additionally, the ALJ

1 informed Picacho that it would be necessary to extend the timeclock for the decision in this matter due  
2 to the delay, and Picacho conceded that such an extension would be appropriate.

3 On January 20, 2026, a Procedural Order was issued memorializing the determinations made  
4 during the telephonic procedural conference, including the filing and submission requirements,  
5 admission of the revised rejoinder schedules for Picacho Water as LFE A-36, and extension of the  
6 timeclock for this matter to March 26, 2026.

7 On January 22, 2026, Picacho filed LFE A-36 and provided the Hearing Division with the  
8 required electronic schedules.

9 Since the rate applications were filed, approximately 209 distinct public comments have been  
10 filed in opposition to the proposed rate increases, with one public comment acknowledging that an  
11 increase is needed but requesting that it be implemented over time.

### 12 **III. Utilities, Systems, & Regulatory Compliance**

#### 13 **A. General Background**

14 The Picacho utilities are both organized as C corporations.<sup>15</sup> Both serve customers within a  
15 development built by Robson entities and known as Robson Ranch, a 3,000-acre community south of  
16 Casa Grande in Pinal County, with Picacho Water serving approximately 1,900 customers and Picacho  
17 Sewer serving approximately 1,800 customers in the test year ending October 31, 2024 (“TY”).<sup>16</sup>  
18 Every residential customer in Robson Ranch is a customer of both Picacho utilities.<sup>17</sup> The vast majority  
19 of the Picacho utilities’ customers are residential customers served by 5/8” x 3/4” meters.<sup>18</sup>

20 The rates currently charged by the Picacho utilities are those established when their certificates  
21 of convenience and necessity (“CC&Ns”) were granted in Decision No. 61266 (November 25, 1998)  
22 (Picacho Water) and Decision No. 61994 (October 8, 1999) (Picacho Sewer).<sup>19</sup> Decision No. 61266  
23 ordered Picacho Water to file a rate application within 36 months after commencing permanent service

24 <sup>15</sup> Tr. at 115.

25 <sup>16</sup> Ex. A-1 at 1-2; Ex. A-2 at 1-2.

26 <sup>17</sup> Tr. at 76.

27 <sup>18</sup> See, e.g., Ex. A-18 at 090. Of the 1,883 TY water customers, 1,809 are residential customers served by 5/8” x 3/4”  
meters. (See *id.*)

28 <sup>19</sup> Ex. A-1 at 2; Ex. A-2 at 2. Official notice is taken of Decision No. 61266 and Decision No. 61994. Picacho Sewer did  
not serve its first customer until 2006. Picacho Water’s and Picacho Sewer’s CC&N service areas were extended in  
Decision No. 67670 (March 9, 2005) and again in Decision No. 69174 (December 5, 2006). Official notice is taken of  
these decisions as well.

1 to its first customer, and Decision No. 61994 ordered Picacho Sewer to file for a rate review within 36  
2 months after commencing service to its first customer.<sup>20</sup> Decision No. 65133 (August 29, 2002)  
3 subsequently prohibited Picacho Water and Picacho Sewer from filing rate case applications until at  
4 least 60 months after commencing service to their first customers, thereby superseding the requirements  
5 to file within 36 months, and did not impose any new rate case filing requirement.<sup>21</sup> Picacho Water  
6 commenced service to its first customer on February 17, 2006.<sup>22</sup> Picacho Sewer also commenced  
7 service to its first customer in 2006.<sup>23</sup> Neither Picacho Water nor Picacho Sewer has ever filed a rate  
8 case application before this matter.

9 In Decision No. 65133, Picacho Water and Picacho Sewer were granted approval to issue new  
10 common stock equity in the amounts of \$5.7 million and \$7.7 million, respectively, and the  
11 Commission expressly found that “the use of 100% equity financing [was] in the long-term interest of  
12 ratepayers and the utilities” and that A.A.C. R14-2-406(D) does not mandate the use of advances in aid  
13 of construction (“AIAC”) to fund plant.<sup>24</sup>

14 Unlike some homebuilders/developers, the Robson entities in Robson Ranch did not limit home  
15 sales to one unit (or area) of development at a time and then build that unit out before moving on to the  
16 next; instead, the Robson entities opened up various units throughout the community and built within  
17 the various units at the same time.<sup>25</sup> As a result, to serve the various units, Picacho has had to build  
18 more spread-out plant, and to build more plant, throughout Robson Ranch than would have been  
19 necessary otherwise.<sup>26</sup> Staff’s engineering testimony shows that Picacho has extended water and sewer  
20 utility infrastructure to 21 distinct units of development within Robson Ranch.<sup>27</sup>

21 When the Robson entities owned the Picacho utilities, all utility plant was funded with equity.<sup>28</sup>  
22 As a result, the Picacho utilities had no plant funded with AIAC or contributions in aid of construction  
23

24 <sup>20</sup> Decision No. 61266 at 11; Decision No. 61994 at 9.

25 <sup>21</sup> See Decision No. 65133 at 13. Official notice is taken of Decision No. 65133.

26 <sup>22</sup> Compliance filing by Picacho Water made in Docket No. W-03528A-98-0117 on March 2, 2006, available on eDocket  
as filing 0000043834. Official notice is taken of this compliance filing.

27 <sup>23</sup> Ex. A-2 at 2.

28 <sup>24</sup> Decision No. 65133 at 8, 12, 13. Official notice is taken of Decision No. 65133.

<sup>25</sup> Tr. at 159.

<sup>26</sup> Tr. at 159.

<sup>27</sup> Ex. S-6 at 000340; see Ex. S-6 at 000322, 000324.

<sup>28</sup> Tr. at 229.

1 (“CIAC”) during the TY, and their rate bases are higher than they would be if any plant funded with  
 2 outstanding AIAC or CIAC were included in rate base.<sup>29</sup> Mr. Bourassa and Mr. Aten testified that it  
 3 would have been appropriate (even “typical” according to Mr. Aten) for Picacho to use AIAC or CIAC  
 4 to fund “on-site facilities,” meaning those that are within the development, and to use CIAC to fund  
 5 some portion of off-site facilities such as treatment plant, transmission mains, water treatment, and  
 6 storage tanks.<sup>30</sup> Mr. Bourassa also testified that it would have been appropriate to have some debt on  
 7 the utilities’ books.<sup>31</sup> But, Mr. Bourassa observed, JW Water “bought the problem that Robson  
 8 created” by never filing for a rate case.<sup>32</sup> Because neither of the Picacho utilities has had a rate case in  
 9 the past 25 years, much of their plant has been fully depreciated, approximately 48% for Picacho Sewer  
 10 and 30% for Picacho Water.<sup>33</sup> Additionally, Picacho’s failure to file for rate increases since obtaining  
 11 their CC&Ns most likely resulted in their customers paying less for service over the intervening years,  
 12 as no rate increases have occurred, and no rate case expenses have been incurred and passed on to  
 13 customers.<sup>34</sup>

14 According to a demographics sheet provided by Robson Publishing, and quoted at hearing by  
 15 Ms. Schwartz, 82% of residents in Robson Ranch have an annual household income of \$125,000 or  
 16 more, the median home sale amount for Robson Ranch is \$468,000, and 36% of Robson Ranch  
 17 residents live there only during the winter months.<sup>35</sup> Ms. Schwartz testified that Robson Ranch has not  
 18 experienced significant growth in recent years, although it is planned to be built out at approximately  
 19 5,000 homes.<sup>36</sup> Ms. Schwartz further testified that there are no special contract rates or agreements in  
 20 place between Picacho (or JW Water or CVC DIF) and any of the Robson entities concerning the rates

21 \_\_\_\_\_  
 22 <sup>29</sup> Tr. at 230. We use the term “outstanding” because AIAC is refunded over time, and CIAC is amortized over time. (See, e.g., A.A.C. R14-2-103(A)(3)(h) and Appendix B, Schedule B-1; A.A.C. R14-2-406(D); A.A.C. R14-2-606(C).)

23 <sup>30</sup> Tr. at 238-239, 241-242, 499. Mr. Aten also stated that his adjustment for plant held for future use was an effort to address the lack of AIAC and CIAC to some extent. (Tr. at 492-494.)

24 <sup>31</sup> Tr. at 239.

25 <sup>32</sup> Tr. at 234.

26 <sup>33</sup> Tr. at 231.

27 <sup>34</sup> Tr. at 313-314.

28 <sup>35</sup> Tr. at 69-70. Ms. Schwartz acknowledged that she did not know how the Robson entities collected the information conveyed or whether it was accurate, although she has no reason to believe that the Robson entities would publish inaccurate information on their website. (Tr. at 128.) According to Ms. Schwartz, Picacho asked Mr. Salmon for community financial information, and he declined to provide it because he argued it was not relevant. (Tr. at 129.) At hearing, Mr. Salmon characterized the information from Robson Publishing as “Robson sales propaganda,” stated that he had no idea whether it was accurate, and conceded that he had no data to contradict it. (Tr. at 417-418.)

<sup>36</sup> Tr. at 95-96; see Tr. at 428.

1 that can be charged to any customer.<sup>37</sup>

2 **B. Picacho Water**

3 The evidence establishes the following concerning Picacho Water's system and compliance  
4 with requirements imposed by the Arizona Department of Environmental Quality ("ADEQ"), the  
5 Arizona Department of Water Resources ("ADWR"), and the Commission:<sup>38</sup>

	<b>Picacho Water Public Water System ("PWS") AZ0411135</b>
Wells & Storage	Two potable water wells (Well #1 and Well #4), one non-potable water well used for irrigation (Well #5), and one storage tank As of the hearing, Picacho was waiting for two parts to complete construction of an additional storage tank, after which it would be able to apply to ADEQ for Approval of Construction. <sup>39</sup>
Customer Meters	1,883
Peak Average Daily Demand <sup>40</sup>	885 gallons per day ("gpd")
Annual Average Daily Demand	607 gpd
TY Water Loss	8.3%
Daily Production Capacity	3,460 gallons per minute ("gpm") potable 3,440 gpm non-potable
Storage Capacity	900,000 gallons

22 <sup>37</sup> Tr. at 101-102.

23 <sup>38</sup> Ex. A-1 at 008; Ex. A-11 at 3; Ex. A-14 at 1-2; Ex. A-18 at 089; Ex. S-1 at 4; Ex. S-6 at 4, 5, 7, 8, 11; Tr. at 139, 144-  
24 145, 146, 157, 481, 482-483. Staff agreed to include the new storage tank in post-TY plant ("PTYP") provided that an  
25 Approval of Construction was obtained before a ROO was issued in this matter because it is important for system  
26 redundancy to serve current customers, and the delay in completion of the project was not Picacho's fault. (Tr. at 484.)  
27 Mr. Aten noted that although the costs for the storage tank project had increased beyond what Picacho initially requested  
28 to have included in PTYP, Picacho has not requested to have the additional costs included in Picacho Water's rate base.  
(Tr. at 488.) Mr. Aten also agreed that the cost of the storage tank is such that if it were not included in PTYP in this matter,  
Picacho Water would likely need to file another rate case to have the storage tank cost included in rate base. (Tr. at 488-  
489.)

<sup>39</sup> As was revealed in the telephonic procedural conference of January 16, 2026, Picacho discovered after the hearing that  
it must obtain a permit for the storage tank from the City of Eloy.

<sup>40</sup> All daily demand figures are per connection.

Sufficient Storage & Production Capacity to Serve Current Customers?	Yes
Plant Added Used & Useful? <sup>41</sup>	Yes
In an Active Management Area ("AMA") and, if so, which AMA?	Yes, Pinal County AMA
Compliance with ADEQ? <sup>42</sup>	Yes
Compliance with ADWR? <sup>43</sup>	Yes
Compliance with Commission <sup>44</sup>	Yes
Complaints	Two in 2025 related to rates/tariffs None in 2022-2024

Picacho Water has a Commission-approved Cross-Connection or Backflow Tariff and included in its water rate application a proposed Cross-Connection or Backflow Tariff and a proposed Curtailment Plan Tariff consistent with the Commission's current standards.<sup>45</sup> Staff has recommended approval of each of these proposed tariffs.<sup>46</sup>

Picacho Water has 50 "residential irrigation customers"; these customer accounts represent meters and accounts paid for by the Robson Ranch Homeowners Association ("Robson HOA") for irrigation of features in shared residential areas such as landscaping, pocket parks, dog parks, and water features.<sup>47</sup> The Robson HOA is controlled by the Robson entities.<sup>48</sup> Picacho Water serves the residential irrigation customers with potable groundwater because the system does not have an alternative water source available to deliver to those areas.<sup>49</sup> The "residential irrigation customers" combined consume nearly as much groundwater as all of the residential customers combined.<sup>50</sup>

<sup>41</sup> "Plant Added Used & Useful" refers to the plant added through the end of the post-TY period.

<sup>42</sup> For a water system, "Compliance with ADEQ" indicates that a system is currently delivering water meeting the water quality standards of 40 C.F.R. 141 and 18 A.A.C. 4.

<sup>43</sup> For a water system, "Compliance with ADWR" indicates that the system is compliant with ADWR requirements governing water providers and/or community water systems.

<sup>44</sup> "Compliance with Commission" means that a search of the Commission's compliance database shows that a company is in compliance with all trackable requirements therein.

<sup>45</sup> Ex. A-1 at 003, 020-025.

<sup>46</sup> Ex. S-6 at 12.

<sup>47</sup> Tr. at 135-136. One of these water features is the lake at the entrance to the Robson Ranch community. (Tr. at 147.)

<sup>48</sup> Tr. at 327, 462.

<sup>49</sup> Tr. at 136-137.

<sup>50</sup> See Ex. A-15 at 087. In the TY, the residential class consumed nearly 109 million gallons while the "residential irrigation class" consumed nearly 98 million gallons. (See *id.*)

1 Robson Ranch includes a golf course, which has a lake; the golf course is owned by the Robson  
 2 entities, and Picacho Water's one 12" meter customer and its one 8" meter customer represent service  
 3 to the golf course and lake.<sup>51</sup> The golf course is irrigated with effluent when effluent is available, but  
 4 there is not enough effluent available to cover the golf course's irrigation needs, so Picacho Water also  
 5 serves the golf course with untreated, non-potable irrigation water.<sup>52</sup> Picacho Water's Well #5, which  
 6 is a non-potable water source, is used primarily to serve the golf course; if additional water were needed  
 7 to serve the golf course because Well #5 was down, Picacho Water would serve the golf course with  
 8 potable groundwater from Well #4.<sup>53</sup> The golf course and lake together consume more groundwater  
 9 than all of the residential customers combined.<sup>54</sup>

### 10 C. Picacho Sewer

11 The evidence establishes the following concerning Picacho Sewer's system and compliance  
 12 with the requirements of ADEQ and the Commission:<sup>55</sup>

	<b>Picacho Sewer Aquifer Protection Permit ("APP") No. P-103890</b>
Treatment Plant	Picacho Water Reclamation Plant ("WRP")
Lift Stations & Approximate Linear Feet ("LF") of Mains	Five lift stations, approximately 17,000 LF of force collection mains, and approximately 88,000 LF of gravity collection mains
Service Connections	1,825 <sup>56</sup>
Effluent Grade & Permitted Design Capacity	A+ Effluent Permitted for 250,000 gpd <sup>57</sup>

22 <sup>51</sup> Tr. at 139, 146-147.

23 <sup>52</sup> Tr. at 138-139.

24 <sup>53</sup> Tr. at 139, 147-148. We note that Decision No. 69174 prohibited the Picacho utilities from "selling groundwater for the purpose of irrigating any future golf courses within the certificated expansion areas or any ornamental lakes or water features located in the common areas of the proposed new developments within the certificated expansion areas" added to their respective CC&Ns in that decision. (Decision No. 69174 at 9-10.)

25 <sup>54</sup> See Ex. A-15 at 087. The golf course/lake customer class consumed nearly 170 million gallons in the TY, while the residential class consumed nearly 109 million gallons. (See Ex. A-15 at 087.)

26 <sup>55</sup> Tr. at 148-149, 157-158, 160, 481; Ex. A-18 at 195; Ex. S-1 at 4; Ex. S-6 at 2-3; Ex. S-8 at 1-2.

27 <sup>56</sup> Staff identified 2,059 service laterals. (Ex. S-6 at 3.)

28 <sup>57</sup> Picacho Sewer is building a new WRP that will be permitted to treat 499,000 gpd but it is not yet completed and in service, Picacho has not requested recovery for its cost in this rate case, and Staff has not made a prudency or used and usefulness analysis or determination concerning it and will consider those issues in a subsequent rate case. (Ex. S-8 at 1-3.)

High Peak Daily Flow & Percentage of Capacity Used	210,000 gpd 84.0%
Low Peak Daily Flow & Percentage of Capacity Used	113,000 gpd 45.2%
Sufficient Treatment Capacity to Serve Current Customers?	Yes
Plant Added Used & Useful?	Yes
Compliance with ADEQ?	Yes
Compliance with Commission	Yes
Complaints	None in 2022-2025

Although the WRP currently receives flows that are below the maximum flow capacity for its design, the content of the flows it receives overload the WRP from a biological standpoint and thus from a treatment standpoint.<sup>58</sup> The current WRP cannot handle the biological content of the inflow and does not allow enough time to complete the treatment process normally.<sup>59</sup> Because of the content of the inflow, the current WRP is no longer operating at its original design, so Picacho Sewer personnel need to manipulate the set points within the process control system constantly throughout each 24-hour period, resulting in significant overtime and substantial additional costs, which are reflected in the TY operating expenses.<sup>60</sup> Picacho Sewer currently has under construction a new WRP, designed to treat 499,000 gpd, which will completely replace the current WRP.<sup>61</sup> The treatment-related additional expenses experienced in the TY should be diminished after the new WRP is constructed and placed into service because the new WRP has been properly designed to treat the actual content of the inflow received.<sup>62</sup> Additionally, because current customers require only 250,000 gpd of capacity, the new WRP will have significant excess capacity to serve growth.<sup>63</sup> The new WRP has an estimated cost of approximately \$15 million.<sup>64</sup> Construction of the new WRP commenced approximately a month and a half before the hearing in this matter, but the planning for it started approximately a year and a half to two years earlier.<sup>65</sup> Picacho considered adding to the existing WRP to expand the treatment capacity,

<sup>58</sup> Tr. at 140-141.

<sup>59</sup> Tr. at 158. For example, the WRP was designed to treat flows with ammonia levels of up to 40 mg per liter but is seeing an average of 60 mg per liter of ammonia in the inflows it receives. (Tr. at 142.)

<sup>60</sup> Tr. at 149-150.

<sup>61</sup> Tr. at 142-143.

<sup>62</sup> Tr. at 150, 161.

<sup>63</sup> Tr. at 142-143.

<sup>64</sup> Tr. at 151.

<sup>65</sup> Tr. at 162.

1 but determined that the cost would be the same as building a new WRP with a new treatment process  
2 that is more sustainable.<sup>66</sup>

3 Picacho Sewer disposes of the effluent produced by its WRP through both direct reuse (to  
4 irrigate the golf course and fill the golf course lake) and recharge, depending on the needs for water to  
5 the golf course and the golf course lake.<sup>67</sup>

#### 6 **IV. Applications – Rates & Financing**

##### 7 **A. Actual & Pro Forma Capital Structures**

8 The Picacho utilities have actual capital structures of 100% stockholder's equity, with the rate  
9 applications reporting capitalization of \$9,992,780 for Picacho Water and \$7,267,485 for Picacho  
10 Sewer.<sup>68</sup> The rate applications use a pro forma capital structure of 70% equity and 30% long-term debt  
11 for both Picacho utilities, which Ms. Schwartz described as the right amount of leveraging for each and  
12 as a means to mitigate the impact of the necessary revenue increases because debt is less expensive  
13 than equity.<sup>69</sup> Picacho acknowledges that 100% equity is not a balanced capital structure and has  
14 expressed an intent to obtain debt authority to reach and then to maintain a capital structure of 70%  
15 equity and 30% debt for the Picacho utilities.<sup>70</sup>

##### 16 **B. Financing Applications**

17 The water financing application seeks authority for Picacho Water to issue evidence of  
18 indebtedness of up to \$4 million and to encumber its real property and utility plant as security for the  
19 indebtedness.<sup>71</sup> Picacho Water asserts that it desires to borrow the amount needed to achieve a capital  
20 structure of 70% equity and 30% debt, which it estimated to be \$3,522,563.<sup>72</sup> Picacho Water states  
21 that it intends to enter into new loan agreements every six months as needed to maintain this capital  
22 structure, without total debt exceeding \$4 million.<sup>73</sup> Picacho estimated that with the requested  
23 financing, Picacho Water would have a Debt Service Coverage Ratio ("DSCR") of 6.03 and a Times  
24

25 <sup>66</sup> Tr. at 162-164.

<sup>67</sup> Tr. at 137-138.

26 <sup>68</sup> Ex. A-15 at 038; Ex. A-16 at 038.

<sup>69</sup> Ex. A-5 at 009.

27 <sup>70</sup> Ex. A-5 at 009; Ex. A-3 at 2; Ex. A-4 at 2.

<sup>71</sup> Ex. A-3 at 1.

<sup>72</sup> Ex. A-3 at 2.

28 <sup>73</sup> Ex. A-3 at 2.

1 Interest Earned Ratio (“TIER”) of 5.44 based on a projected 2026 balance sheet and income  
2 statement.<sup>74</sup>

3 The sewer financing application seeks authority for Picacho Sewer to issue evidence of  
4 indebtedness of up to \$8 million and to encumber its real property and utility plant as security for the  
5 indebtedness.<sup>75</sup> Picacho Sewer asserts that it desires to borrow the amount needed to achieve a capital  
6 structure of 70% equity and 30% debt, which it estimated to be \$2,206,887.<sup>76</sup> Picacho Sewer also states  
7 that it intends to enter into new loan agreements every six months as needed to maintain this capital  
8 structure, without total debt exceeding \$8 million.<sup>77</sup> Picacho estimated that with the requested  
9 financing, Picacho Sewer would have a DSC of 4.90 and a TIER of 3.80 based on a projected 2026  
10 balance sheet and income statement.<sup>78</sup>

11 The lender for the financings would be JW Water or an affiliate formed specifically for the  
12 purpose of lending money to its subsidiaries.<sup>79</sup> Picacho proposed for each loan to be provided at a  
13 fixed rate based on the 20-year U.S. Treasury rate on the closing date plus 200 basis points, to have a  
14 term of no more than 20 years after closing, and to be amortized on a mortgage-style basis.<sup>80</sup> In the  
15 financing applications, Picacho identified the estimated interest rate as 6.79%, based on the April 24,  
16 2025, U.S. Treasury rate of 4.79%.<sup>81</sup> The financing applications included certified resolutions from the  
17 boards of directors for the Picacho utilities.<sup>82</sup>

### 18 C. Rate Applications

19 Picacho started preparing the rate applications almost immediately after the Picacho utilities’  
20 stock was purchased by JW Water because both utilities have been underearning for years and because  
21 Picacho Sewer expects to complete the new WRP in 2026 and to file another rate case application  
22 promptly after the WRP project is completed.<sup>83</sup>

23  
24 <sup>74</sup> Ex. A-3 at 3, 007.

25 <sup>75</sup> Ex. A-4 at 1.

26 <sup>76</sup> Ex. A-4 at 2

27 <sup>77</sup> Ex. A-4 at 2.

28 <sup>78</sup> Ex. A-4 at 3.

<sup>79</sup> Ex. A-3 at 3; Ex. A-4 at 3.

<sup>80</sup> Ex. A-3 at 3; Ex. A-4 at 3.

<sup>81</sup> Ex. A-3 at 010; Ex. A-4 at 010.

<sup>82</sup> Ex. A-3 at 019; Ex. A-4 at 019. The board is comprised of Mr. Williamson. (See Ex. A-3 at 019; Ex. A-4 at 019.)

<sup>83</sup> Tr. at 117-119, 127.

1 Picacho proposes to have the rates for the Picacho utilities determined using original cost rate  
2 base (“OCRB”) as fair value rate base (“FVRB”).<sup>84</sup>

3 Picacho and Staff are now in complete agreement as to the OCRBs/FVRBs, costs of capital and  
4 capital structures, revenue requirements, and rate designs for the Picacho utilities.<sup>85</sup> All of these items  
5 were originally contested, but Picacho and Staff each changed positions through their testimonies,  
6 eventually reaching agreement. Picacho and Staff have not entered into a settlement agreement,  
7 however, and the Intervenor oppose the joint positions reached by Picacho and Staff. Picacho asserts  
8 that it changed its position to match Staff’s on several items as a concession to mitigate the rate impact  
9 to customers.<sup>86</sup>

10 **I. Cost of Equity, Cost of Debt, & Weighted Average Cost of Capital**  
11 **(“WACC”)**

12 Mr. Bourassa estimated cost of equity (“COE”) for the Picacho utilities<sup>87</sup> using Picacho’s pro  
13 forma capital structure and based on his analyses using a Discounted Cash Flow method (“DCF”), three  
14 Risk Premium methods (including the Capital Asset Pricing Model (“CAPM”), his review of expected  
15 economic conditions for the period rates will be in effect, and his determination of Picacho’s financial  
16 risk and business and operational risks.<sup>88</sup> For his analyses, Mr. Bourassa used a proxy group of seven  
17 publicly traded water utilities: American States Water, American Water Works, Essential Utilities,  
18 California Water Company, Middlesex Water, SJW Corp., and York Water Company.<sup>89</sup> He reported  
19 that the proxy group companies are much larger and less risky than the Picacho utilities.<sup>90</sup> Mr. Bourassa  
20 included a business risk adjustment of 120 basis points for each of the Picacho utilities based on “the  
21 differences in risk (business, regulatory, liquidity, size)” between the Picacho utilities and the proxy  
22 group and a financial risk adjustment of -60 basis points based on the low level of debt in the Picacho

23 \_\_\_\_\_  
<sup>84</sup> Tr. at 116.

24 <sup>85</sup> Tr. at 104, 259-260, 318-320, 505; Ex. S-5 at 000256.

25 <sup>86</sup> See, e.g., Tr. at 111.

26 <sup>87</sup> The narrative portion of Mr. Bourassa’s direct testimony on COE for the Picacho utilities was identical. (See Ex. A-20  
at 004.) As admitted as Exhibit A-22, however, the COE direct testimony for Picacho Sewer does not include the cost of  
capital tables included in the COE direct testimony for Picacho Water (Exhibit A-20). (See Ex. A-20 at 050-061; Ex. A-22  
at 050-051.) It is understood, however, that the cost of capital tables included in the Picacho Water direct testimony apply  
equally to Picacho Sewer.

27 <sup>88</sup> Ex. A-20 at 005; Ex. A-22 at 005.

28 <sup>89</sup> Ex. A-20 at 018; Ex. A-22 at 018.

<sup>90</sup> Ex. A-20 at 019-020; Ex. A-22 at 019-020.

1 utilities' proposed capital structures as compared to the proxy group, resulting in a net increase of 60  
 2 basis points for the Picacho utilities as compared to the proxy group.<sup>91</sup> Mr. Bourassa's analyses  
 3 produced the following results:<sup>92</sup>

Method	Selected Range of Results	Selected Result-Proxy Group	Selected Result-Picacho
DCF (Constant Growth)	7.5% - 13.0%	9.60%	10.20%
Risk Premium (Avg of DCF Estimates 2015-2024)	10.06% - 10.48% <sup>93</sup>	10.27%	10.87%
Risk Premium (Total Returns 1995-2024)	10.0% - 10.8% <sup>94</sup>	10.60%	11.20%
CAPM (Traditional CAPM, Empirical CAPM, and Modified CAPM)	10.0% - 11.0% <sup>95</sup>	10.40%	11.00%
<b>Average of Selected Results</b>		10.20%	10.80%
<b>Recommendation</b>			<b>10.80%</b>

13 For the cost of debt, Mr. Bourassa used 6.49%, based on the expected borrowing costs for JW  
 14 Water, estimated as the yield on a 20-year U.S. Treasury bond plus 200 basis points.<sup>96</sup>

15 Before the agreement with Staff, Picacho proposed the following WACC for the Picacho  
 16 utilities:<sup>97</sup>

	Percent	Cost	Weighted Cost
<b>Debt</b>	30.00%	6.49%	1.95%
<b>Equity</b>	70.00%	10.80%	7.56%
<b>Total</b>	100.00%		9.51%

21 <sup>91</sup> Ex. A-20 at 005-006, 027-028; Ex. A-22 at 005-006, 027-028.

22 <sup>92</sup> Ex. A-20 at 051, 056, 058.

23 <sup>93</sup> The range of results based on the individual years was 7.97% to 10.19%, which averaged to 9.10%. (See Ex. A-20 at 058.) Mr. Bourassa used a 5-year average and a 10-year average and an average of forecasted treasury rates. (See Ex. A-20 at 058.)

24 <sup>94</sup> The average for 20 years was 10.0%, and the average for 30 years was 10.8%, which averaged to 10.4%. (See Ex. A-20 at 059.) Mr. Bourassa used the 30-year expected long-term treasury bond rate of 4.3% (rather than the average for 20 years and 30 years of 3.9%) as the expected long-term treasury bond rate and an estimated current risk premium of 6.3%, which was lower than the average for 20 years and 30 years of 6.5%. (See Ex. A-20 at 059.) Mr. Bourassa stated that the 4.3% is the December 2024 predicted average long-term treasury rate for 2026-2028 as reported by Blue Chip Finance Forecasts. (Ex. A-20 at 022.)

27 <sup>95</sup> The individual results were 10.0% for the Traditional CAPM, 10.2% for the Empirical CAPM, and 11.0% for the Modified CAPM. (Ex. A-20 at 061.)

28 <sup>96</sup> Ex. A-20 at 006.

<sup>97</sup> Ex. A-15 at 032; Ex. A-16 at 032.

1                   **2.     Picacho Water – Initial Water Rate Application Proposals**

2                   The water rate application reported the following TY results and proposed the following  
3                   OCRB/FVRB, rate of return, and revenue increase:<sup>98</sup>

<b>Picacho Water</b>	
OCRB/FVRB	\$10,802,332
Adjusted TY Revenues	\$1,192,224
Adjusted Operating Income/Loss	(\$232,032) <sup>99</sup>
Current Rate of Return	-2.15%
Required Operating Income	\$1,026,978
Required Rate of Return	9.51%
Operating Income Deficiency	\$1,259,010
GRCF	1.3511
Required Increase in Gross Revenue	\$1,701,041
% Increase in Gross Revenues	142.68%

10  
11                   The water rate application proposed the following rate design, as compared to the current rate  
12                   design:

<b>Picacho Water</b>	Present Rates	Water Rate Application Proposed
<b>MONTHLY MINIMUM CHARGE:</b>		
5/8" x 3/4" Meter	\$ 15.00	\$ 46.05
3/4" Meter	15.00	46.05
1" Meter	22.00	115.13
1 1/2" Meter	33.00	230.25
2" Meter	44.00	368.40
3" Meter	NT	736.80
4" Meter	88.00	1,151.25
6" Meter	176.00	2,302.50
8" Meter	200.00	3,684.00
10" Meter	200.00	5,295.75
12" Meter	200.00	9,900.75
8" Lake/Irrigation	200.00	2,947.20
12" Lake/Golf Course Irrigation	200.00	7,920.60
Construction – Hydrant	44.00	736.80

25  
26  
27                   <sup>98</sup> Ex. A-15 at 012.

28                   <sup>99</sup> Picacho Water's actual TY results, without adjustment, reported operating income of \$74,557 and a net profit of \$102,827. (Tr. at 92; see Ex. A-15 at 40.)

1	<u>COMMODITY RATES:</u>	
2	(Per 1,000 gallons)	
3	Residential & Commercial	
4	All Usage	\$ 3.00
5	Irrigation	
6	All Usage	0.87
7	5/8" x 3/4" Meter and 3/4" Meter – Residential	
8	0 to 4,000 gallons	\$ 3.2140
9	4,001 to 10,000 gallons	4.4640
10	Over 10,000 gallons	5.7140
11	5/8" x 3/4" Meter and 3/4" Meter – Commercial, Irrigation	
12	0 to 10,000 gallons	4.4640
13	Over 10,000 gallons	5.7140
14	1" Meter – Residential, Commercial, Irrigation	
15	0 to 25,000 gallons	3.2140
16	Over 25,000 gallons	4.4640
17	1 1/2" Meter – Residential, Commercial, Irrigation	
18	0 to 50,000 gallons	4.4640
19	Over 50,000 gallons	5.7140
20	2" Meter – Residential, Commercial, Irrigation	
21	0 to 80,000 gallons	4.4640
22	Over 80,000 gallons	5.7140
23	3" Meter – Residential, Commercial, Irrigation	
24	0 to 160,000 gallons	4.4640
25	Over 160,000 gallons	5.7140
26	4" Meter – Residential, Commercial, Irrigation	
27	0 to 250,000 gallons	4.4640
28	Over 250,000 gallons	5.7140
	6" Meter – Residential, Commercial, Irrigation	
	0 to 500,000 gallons	4.4640
	Over 500,000 gallons	5.7140

1	8" Meter – Residential, Commercial, Irrigation		
2	0 to 800,000 gallons		4.4640
3	Over 800,000 gallons		5.7140
4	10" Meter – All Classes		
5	0 to 1,150,000 gallons		4.4640
6	Over 1,150,000 gallons		5.7140
7	12" Meter – All Classes		
8	0 to 2,150,000 gallons		4.4640
9	Over 2,150,000 gallons		5.7140
10	8" Meter – Lake/Irrigation		
11	All gallons		2.8570
12	12" Meter – Lake/Golf Course Irrigation		
13	All gallons		2.8570
14	Construction – Hydrant		
15	All gallons	3.00	5.7140

<u>REFUNDABLE METER AND SERVICE LINE CHARGES:</u> (Refundable pursuant to A.A.C. R14-2-405)		
	Present Rates	Water Rate Application
18	5/8" x 3/4" Meter	NT At Cost
19	3/4" Meter	NT At Cost
20	1" Meter	NT At Cost
21	1 1/2" Meter	NT At Cost
22	2" Meter	NT At Cost
	3" Meter	NT At Cost
	4" Meter	NT At Cost
	6" Meter and Larger	NT At Cost

	Present Rates	Water Rate Application
25	<u>HYDRANT METER DEPOSIT:</u>	
26	(non-interest bearing and fully refundable upon return of meter in good condition and payment of final bill)	
27	Hydrant Meter Deposit – 3" Meter	NT \$740.00

	Present Rates	Water Rate Application
<u>SERVICE CHARGES:</u>		
Establishment	\$25.00	\$35.00
Establishment (After Hours)	\$37.50	Remove
Reconnection (Delinquent)	\$25.00	\$30.00
Meter Test (If Correct)	\$30.00	\$30.00
Deposit	*	*
Deposit Interest	*	6.0%
Reestablishment (Within 12 Months)	**	**
NSF Check	\$10.00	\$30.00
Deferred Payment (Per Month)	\$15.00	1.5%
Meter Reread (If Correct)	*** 1.5%	\$30.00
Late Payment Penalty	NT	Greater of \$5.00 or 1.50% of unpaid balance
After-Hours Service Charge (at Customer Request or Convenience)	NT	\$40.00
<u>Monthly Service Charge for Fire Sprinkler:</u>		
4" or Smaller	****	****
6"	****	****
8"	****	****
10"	****	****
Larger than 10"	****	****

\* Per A.A.C. R14-2-403(B)  
 \*\* Months off system times the monthly minimum per A.A.C. R14-2-403(D)  
 \*\*\* 1.50% per month of unpaid balance  
 \*\*\*\* 1% of monthly minimum for a comparable sized meter connection, but not less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

NT No Tariff

NOTE: Picacho Water may only charge one NSF fee when customers are billed for water and wastewater service on one bill.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, or use tax, per Commission Rule R14-2-409(D)(5).

For a residential customer served by a 5/8" x 3/4" meter with average or median monthly

1 consumption, the rates proposed in the water rate application would have resulted in the following bill  
2 impact:<sup>100</sup>

Usage	Current Bill	Proposed Bill	\$ Increase	% Increase
Average (5,003 gallons)	\$30.01	\$63.38	\$33.37	111.21%
Median (3,500 gallons)	\$25.50	\$57.30	\$31.80	124.70%

7 For a "residential irrigation" customer served by a 5/8" x 3/4" meter with average or median  
8 monthly consumption, the rates proposed in the water rate application would have resulted in the  
9 following bill impact:<sup>101</sup>

Usage	Current Bill	Proposed Bill	\$ Increase	% Increase
Average (34,153 gallons)	\$117.46	\$228.70	\$111.24	94.71%
Median (26,500 gallons)	\$94.50	\$184.97	\$90.47	95.74%

14 The class cost-of-service study ("COSS") prepared by Mr. Bourassa for the water rate  
15 application showed the following proposed rates of return by customer class (as compared to the overall  
16 proposed rate of return of 9.51%):<sup>102</sup>

Class	Residential	Commercial	Residential Irrigation	Golf Course/Lake	Standpipe/ Construction
Rate of Return	9.70%	14.39%	6.44%	12.92%	18.55%

20 In addition to the revenue increase requested to be included in base rates, Picacho Water initially  
21 requested recovery of \$62,500 in rate case expense, to be amortized over a period of three years and  
22 recovered through a surcharge to be paid equally by each customer on each monthly bill.<sup>103</sup> Picacho  
23 Water estimated that the surcharge amount per bill would be \$0.91.<sup>104</sup>

24 . . .

26 <sup>100</sup> Ex. A-15 at 096.

27 <sup>101</sup> Ex. A-15 at 101.

<sup>102</sup> Ex. A-15 at 069.

<sup>103</sup> Ex. A-15 at 037.

28 <sup>104</sup> Ex. A-15 at 037.

1                   **3.     Picacho Sewer – Initial Sewer Rate Application Proposals**

2                   The sewer rate application reported the following TY results and proposed the following  
3                   OCRB/FVRB, rate of return, and revenue increase:<sup>105</sup>

<b>Picacho Sewer</b>	<b>Rate App.</b>
OCRB/FVRB	\$8,727,430
Adjusted TY Revenues	\$954,653
Adjusted Operating Income/Loss	(\$516,700)
Current Rate of Return	-5.92%
Required Operating Income	\$829,717
Required Rate of Return	9.51%
Operating Income Deficiency	\$1,346,417
GRCF	1.3507
Required Increase in Gross Revenue	\$1,818,584
% Increase in Gross Revenues	190.50%

10  
11                   The sewer rate application proposed the following rate design, as compared to the current rate  
12                   design:<sup>106</sup>

	Present Rates	Sewer Rate App. Proposed
<b>MONTHLY SERVICE CHARGE:</b>		
Residential	\$42.00	
Commercial	42.00	
5/8" x 3/4" Meter – All Classes		\$ 120.96
3/4" Meter – All Classes		120.96
1" Meter – All Classes		302.40
1 1/2" Meter – All Classes		604.80
2" Meter – All Classes		967.68
3" Meter – All Classes		1,935.36
4" Meter – All Classes		3,024.00
6" Meter – All Classes		6,048.00
8" Meter – All Classes		9,676.80
10" Meter – All Classes		13,910.40
12" Meter – All Classes		18,144.00

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28 <sup>105</sup> Ex. A-16 at 012.

<sup>106</sup> Ex. A-16 at 094-095.

<u>COMMODITY RATE:</u> (Per 1,000 gallons)		
Effluent		
All Usage	0.87	0.87
<u>SERVICE CHARGE:</u>		
Establishment		
	\$30.00	\$35.00
Reestablishment (Within 12 months)		
	*	*
Reconnection (Delinquent)		
	\$30.00	\$30.00
Disconnection/Reconnection (Delinquent Account)		
	\$500.00	**
Deposit		
	***	***
Deposit Interest (Per Annum)		
	****	****
NSF Check		
	\$15.00	\$30.00
Late Payment Penalty (Per Month)		
	1.5%	1.5%
Deferred Payment (Per Month)		
	NT	1.5%
After-Hours Service Charge (at Customer Request)		
	NT	\$40.00
Road Cutting or Boring		
	NT	At Cost

\* Per Commission Rule A.A.C. R14-2-603(D) – Months off the system times the monthly service charge.

\*\* Cost: The actual cost of disconnection and reconnection, including costs for excavation and trenching, pipeline modification, backfill and grading, road repairs, and permitting

\*\*\* Per Commission Rule A.A.C. R14-2-603(B)(7)

\*\*\*\* Per Commission Rule A.A.C. R14-2-603(B)(3)

NT No Tariff

NOTE: Picacho Sewer may only charge one NSF fee when customers are billed for water and wastewater service on one bill.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, or use tax, per Commission Rule R14-2-608(D)(5).

For a customer served by a 5/8" x 3/4" meter, the rates proposed in the sewer rate application would have resulted in the following bill impact:<sup>107</sup>

Current Bill	Proposed Bill	\$ Increase	% Increase
\$42.00	\$120.96	\$78.96	188%

The COSS prepared by Mr. Bourassa for the sewer rate application showed the following proposed rates of return by customer class (as compared to the overall proposed rate of return of

<sup>107</sup> Ex. A-16 at 096.

1 9.51%.<sup>108</sup>

Class	Residential	Commercial
Rate of Return	9.85%	2.62%

2  
3  
4 In addition to the revenue increase requested to be included in base rates, Picacho Sewer  
5 initially requested recovery of \$62,500 in rate case expense, to be amortized over a period of three  
6 years and recovered through a surcharge to be paid equally by each customer on each monthly bill.<sup>109</sup>

7 Picacho Sewer estimated that the surcharge amount per bill would be \$0.94.<sup>110</sup>

8 **V. Staff's Initial Positions**

9 **A. Picacho Water Rates & Financing**

10 On direct, Staff recommended approval of the water financing application but that the interest  
11 rate for the financing be limited to the 20-year U.S. Treasury bond rate plus 150 basis points, which at  
12 the time would have meant a maximum interest rate of 6.29%; that the interest rate be capped at 7% as  
13 a safeguard for ratepayers; and that the loan have a maturity date of 20 years after closing.<sup>111</sup> Staff  
14 testified that Picacho had failed to provide justification for its proposed 200-basis-point adder, that the  
15 proposed loans would be made by JW Water or an affiliate, that no showing had been made as to the  
16 source or cost of the funds to be loaned to Picacho, that interest rates were likely to be reduced in the  
17 next few months, and that a 150-basis-point adder is a reasonable proxy for the cost of debt in an  
18 affiliated transaction.<sup>112</sup>

19 For the water rate application, Staff recommended a pro forma capital structure of 71% equity  
20 and 29% debt, based on the maximum amount of long-term debt requested in the water financing  
21 application.<sup>113</sup> Staff also recommended a cost of debt of 6.29%<sup>114</sup> and a COE of 9.75% based on Mr.  
22 Parcell's COE analyses.<sup>115</sup>

23 Mr. Parcell performed his COE analyses using the following proxy group of six publicly traded  
24 water utilities/utility holding companies: American States Water Co., American Water Works Co.,

25 <sup>108</sup> Ex. A-16 at 070.

26 <sup>109</sup> Ex. A-16 at 037.

27 <sup>110</sup> Ex. A-16 at 037.

28 <sup>111</sup> Ex. S-1 at 5, 21.

<sup>112</sup> Ex. S-1 at 21; Ex. S-4 at 3.

<sup>113</sup> Ex. S-1 at 5.

<sup>114</sup> Ex. S-4 at 2; Ex. S-1 at 5.

<sup>115</sup> Ex. S-1 at 5.

1 California Water Service Group, Essential Utilities, H2O America, and Middlesex Water Co.<sup>116</sup> To  
 2 estimate COE, Mr. Parcell performed his analyses using DCF, CAPM, Comparable Earnings (“CE”),  
 3 and Risk Premium methods.<sup>117</sup> On direct, Mr. Parcell reported the following results:<sup>118</sup>

Method	Selected Range of Results	Midpoint
DCF	9.0% to 10.0% <sup>119</sup>	9.5%
CAPM	10.0%	10.0%
CE	9.0% to 10.0% <sup>120</sup>	9.5%
RP	9.6% to 10.9% <sup>121</sup>	10.25%
<b>Average of Midpoints</b>		<b>9.81%</b>
<b>Median of Midpoints</b>		<b>9.75%</b>
<b>Recommendation</b>		<b>9.75%</b>

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 6  
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 10 On direct, Staff recommended the following TY results, OCRB/FVRB, rate of return, and  
 11 revenue increase for Picacho Water, as compared to the water rate application:<sup>122</sup>

Picacho Water	Rate App.	Staff Direct
OCRB/FVRB	\$10,802,332	\$8,965,770
Adjusted TY Revenues	\$1,192,224	\$1,179,187
Adjusted Operating Income/Loss	(\$232,032)	(\$179,584)
Current Rate of Return	-2.15%	-2.01%
Required Operating Income	\$1,026,978	\$785,401
Required Rate of Return	9.51%	8.76%
Operating Income Deficiency	\$1,259,010	\$965,255
GRCF	1.3511	1.3500
Required Increase in Gross Revenue	\$1,701,041	\$1,303,101
% Increase in Gross Revenues	142.68%	110.51%

12  
 13  
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 17  
 18 Staff’s recommendations reflect moving \$738,011 in transmission and distribution mains and  
 19 \$307,769 in services from plant in service (“PIS”) (and thus OCRB/FVRB) to plant held for future use  
 20 (“PHFFU”) because Staff determined that Picacho Water has overcapacity.<sup>123</sup> Staff also excluded from  
 21

22 <sup>116</sup> Ex. S-4 at 000224.

23 <sup>117</sup> Ex. S-4 at 4.

24 <sup>118</sup> Ex. S-4 at 000199, 000202, 000205, 000209; see Ex. S-11.

25 <sup>119</sup> Mr. Parcell’s results, obtained using different growth rates, ranged from a median low of 7.0% to a mean high of 10.9%,  
 26 and Mr. Parcell stated that the selected range of 9.0% to 10.0% approximated the DCF rates, exceeding the mean/median  
 27 DCF results and being lower than the highest DCF results. (Ex. S-4 at 000198-000199.)

28 <sup>120</sup> Mr. Parcell’s results obtained using individual years ranged from a mean low of 7.7% in 2009 to a median high of 11.5%  
 in 2016. (See Ex. S-4 at 000232.) For the period of 2009-2020, Mr. Parcell obtained a mean of 9.8% and a median of  
 9.6%. (See *id.*) For the period of 2021-2030, he obtained a mean of 10.3% and a median of 10.0%. (See *id.*)

<sup>121</sup> For the period of 2012-2019, Mr. Parcell obtained RP results ranging from a low of 10.10% to a high of 10.63%. (See  
 Ex. S-4 at 000237.) For the period of 2012-2024, Mr. Parcell obtained RP results ranging from a low of 9.60% to a high  
 of 10.95%. (See *id.*)

<sup>122</sup> Ex. S-1 at 000031.

<sup>123</sup> Ex. S-1 at 8.

1 PIS \$1,107,824 in PTYP (\$750,000 for distribution reservoirs and standpipes and \$357,824 for  
 2 transmission and distribution mains) because the plant was not yet completed and used and useful.<sup>124</sup>  
 3 Staff decreased accumulated depreciation by \$317,043 to coincide with Staff's adjustments to PIS.<sup>125</sup>

4 Staff reduced TY revenues by \$13,037 to correct an overstatement by Picacho Water based on  
 5 tier limits and use of the wrong tariffed amount for 1" irrigation meters and 1" commercial meters.<sup>126</sup>  
 6 Staff also noted that Picacho Water had included in its water rate application charges that are not  
 7 included in Commission-approved tariffs, including construction hydrants, 12" meters, and a late  
 8 charge, and recommended that Picacho Water take appropriate steps in the future to correct and  
 9 formalize all charges through the Commission.<sup>127</sup>

10 Staff also adjusted operating expenses to decrease purchased power by \$20,721 because  
 11 Picacho Water had included 13 months instead of 12, decrease contractual legal services by \$4,753  
 12 because Picacho Water had not supported the amount, decrease contractual management services by  
 13 \$3,301 to eliminate the allocation for a vacant position, decrease contractual other services by \$8,318  
 14 because Staff determined that JW Water's Denver office was unnecessary to provide service in light  
 15 of JW Water's Phoenix office and because Staff considered a "Government Affairs" expense to be a  
 16 lobbying expense, decrease contractual testing services by \$2,629 because a well study for Well #5 did  
 17 not represent recurring testing, decrease salaries and wages by \$6,442 to remove officer salary amounts  
 18 allocated to the prior owner during the TY, decrease depreciation expense by \$48,815 to be consistent  
 19 with Staff's PIS recommendation, decrease property taxes by \$3,711 to reflect recalculation using the  
 20 correct assessment ratio of 15.5% and Staff's recommended adjustment to TY revenues, and increase  
 21 income tax expense by \$33,474 to reflect recalculation using Staff's TY taxable income.<sup>128</sup>

22 Staff recommended the following rate design, as compared to the current rate design and the  
 23 water rate application:<sup>129</sup>

24 . . .

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26 <sup>124</sup> Ex. S-1 at 9.

<sup>125</sup> Ex. S-1 at 9-10.

<sup>126</sup> Ex. S-1 at 14.

<sup>127</sup> Ex. S-1 at 14-15.

<sup>128</sup> Ex. S-1 at 15-17; Ex. S-6 at 14.

<sup>129</sup> Ex. S-2 at 000090-000093.

Picacho Water	Present Rates	Water Rate Application Proposed	Staff Direct
<u>MONTHLY MINIMUM CHARGE:</u>			
5/8" x 3/4" Meter	\$ 15.00	\$ 46.05	\$ 20.00
3/4" Meter	15.00	46.05	30.00
1" Meter	22.00	115.13	50.00
1 1/2" Meter	33.00	230.25	100.00
2" Meter	44.00	368.40	160.00
3" Meter	NT	736.80	300.00
4" Meter	88.00	1,151.25	500.00
6" Meter	176.00	2,302.50	1,000.00
8" Meter	200.00	3,684.00	1,600.00
10" Meter	200.00	5,295.75	2,300.00
12" Meter	200.00	9,900.75	4,300.00
8" Lake/Irrigation	200.00	2,947.20	1,600.00
12" Lake/Golf Course Irrigation	200.00	7,920.60	4,300.00
Construction – Hydrant	44.00	736.80	300.00
<u>COMMODITY RATES:</u>			
(Per 1,000 gallons)			
Residential & Commercial			
All Usage	\$ 3.00		
Irrigation			
All Usage	0.87	NT	NT
5/8" x 3/4" Meter and 3/4" Meter – Residential			
0 to 4,000 gallons		\$ 3.2140	\$1.50
4,001 to 10,000 gallons		4.4640	3.00
Over 10,000 gallons		5.7140	6.14
5/8" x 3/4" Meter and 3/4" Meter – Commercial, Irrigation			
0 to 10,000 gallons		4.4640	3.00
Over 10,000 gallons		5.7140	6.14
1" Meter – Residential, Commercial, Irrigation			
0 to 25,000 gallons		3.2140	3.00
Over 25,000 gallons		4.4640	6.14

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1	1 1/2" Meter – Residential, Commercial, Irrigation			
2	0 to 50,000 gallons		4.4640	3.00
3	Over 50,000 gallons		5.7140	6.14
4	2" Meter – Residential, Commercial, Irrigation			
5	0 to 80,000 gallons		4.4640	3.00
6	Over 80,000 gallons		5.7140	6.14
7	3" Meter – Residential, Commercial, Irrigation			
8	0 to 160,000 gallons		4.4640	3.00
9	Over 160,000 gallons		5.7140	6.14
10	4" Meter – Residential, Commercial, Irrigation			
11	0 to 250,000 gallons		4.4640	3.00
12	Over 250,000 gallons		5.7140	6.14
13	6" Meter – Residential, Commercial, Irrigation			
14	0 to 500,000 gallons		4.4640	3.00
15	Over 500,000 gallons		5.7140	6.14
16	8" Meter – Residential, Commercial, Irrigation			
17	0 to 800,000 gallons		4.4640	3.00
18	Over 800,000 gallons		5.7140	6.14
19	10" Meter – All Classes			
20	0 to 1,150,000 gallons		4.4640	3.00
21	Over 1,150,000 gallons		5.7140	6.14
22	12" Meter – All Classes			
23	0 to 2,150,000 gallons		4.4640	3.00
24	Over 2,150,000 gallons		5.7140	6.14
25	8" Meter – Lake/Irrigation			
26	All gallons		2.8570	3.00
27	12" Meter – Lake/Golf Course Irrigation			
28	All gallons	3.00	5.7140	6.14
	Construction – Hydrant			
	All gallons	3.00	5.7140	6.14

<u>REFUNDABLE METER AND SERVICE LINE CHARGES:</u> (Refundable pursuant to A.A.C. R14-2-405)					
	Present Rates	Water Rate Application	Staff Direct		
			Service Line	Meter Charge	Total Charge
5/8" x 3/4" Meter	NT	At Cost	\$ 1,500	\$ 175	\$ 1,675
3/4" Meter	NT	At Cost	1,800	200	2,000
1" Meter	NT	At Cost	2,100	300	2,400
1 1/2" Meter	NT	At Cost	2,320	500	2,820
2" Meter	NT	At Cost	3,240	1,650	4,890
3" Meter	NT	At Cost	5,210	3,200	8,410
4" Meter	NT	At Cost	6,230	4,500	10,730
6" Meter and Larger	NT	At Cost	At Cost	At Cost	At Cost

	Present Rates	Water Rate Application	Staff Direct
<u>HYDRANT METER DEPOSIT:</u>			
(non-interest bearing and fully refundable upon return of meter in good condition and payment of final bill)			
<u>Hydrant Meter Deposit – 3" Meter</u>	NT	\$740.00	NT

	Present Rates	Water Rate Application	Staff Direct
<u>SERVICE CHARGES:</u>			
Establishment	\$25.00	\$35.00	\$35.00
Establishment (After Hours)	\$37.50	Remove	NT
Reconnection (Delinquent)	\$25.00	\$30.00	\$30.00
Meter Test (If Correct)	\$30.00	\$30.00	\$30.00
Deposit	*	*	*
Deposit Interest	*	6.0%	6.0%
Reestablishment (Within 12 Months)	**	**	**
NSF Check	\$10.00	\$30.00	\$30.00
Deferred Payment (Per Month)	\$15.00	1.5%	1.5%
Meter Reread (If Correct)	*** 1.5%	\$30.00	\$30.00
Late Payment Penalty	NT	Greater of \$5.00 or 1.50% of unpaid balance	1.5%
After-Hours Service Charge (at Customer Request or Convenience)	NT	\$40.00	\$40.00

Monthly Service Charge for Fire Sprinkler:				
4" or Smaller	****	****	****	****
6"	****	****	****	****
8"	****	****	****	****
10"	****	****	****	****
Larger than 10"	****	****	****	****

\* Per A.A.C. R14-2-403(B)  
 \*\* Months off system times the monthly minimum per A.A.C. R14-2-403(D)  
 \*\*\* 1.50% per month of unpaid balance  
 \*\*\*\* 1% of monthly minimum for a comparable sized meter connection, but not less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

NT No Tariff

NOTE: Picacho Water may only charge one NSF fee when customers are billed for water and wastewater service on one bill.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, or use tax, per Commission Rule R14-2-409(D)(5).

For a residential customer served by a 5/8" x 3/4" meter with average or median monthly consumption, Staff's initially recommended rates would have resulted in the following bill impact:<sup>130</sup>

Usage	Current Bill	Proposed Bill	\$ Increase	% Increase
Average (5,003 gallons)	\$30.01	\$29.01	(\$1.00)	(3.3%)
Median (3,500 gallons)	\$25.50	\$25.25	(\$0.25)	(1.0%)

For a "residential irrigation" customer served by a 5/8" x 3/4" meter with average or median monthly consumption, Staff's initially recommended rates would have resulted in the following bill impact:<sup>131</sup>

Usage	Current Bill	Proposed Bill	\$ Increase	% Increase
Average (34,153 gallons)	\$117.46	\$198.30	\$80.84	68.82%
Median	\$94.50	\$151.31	\$56.81	60.12%

<sup>130</sup> Ex. S-2 at 00094.

<sup>131</sup> See Ex. S-2 at 000090.

(26,500 gallons)				
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Ms. Perez-Palacios stated that Staff's initially recommended rate design would have resulted in the following breakdown of revenues for residential customers served by 5/8" x 3/4" meters, as compared to the breakdown for Picacho Water's originally proposed rates, and that Staff's initially recommended rates were consistent with the Commission's "Policy on Implementation of Three Tiered Inclining Block Rates," adopted in Decision No. 75626 (July 25, 2016):<sup>132</sup>

	Basic Service Charge Plus First-Tier Revenues %	Second-Tier Revenues %	Third-Tier Revenues %
Staff	76.18%	12.96%	10.87%
Picacho Water	85.48%	9.52%	5.00%

Based on Staff's review of Picacho's workpapers and schedules provided regarding rate case expenses incurred and expected to be incurred before a decision in this matter, Staff recommended a total rate case expense for Picacho Water of \$10,000, to be amortized over three years or until the full amount was recovered, and subject to true up, which would have resulted in a rate case expense surcharge estimated at \$0.15 per month.<sup>133</sup>

#### **B. Picacho Sewer Rates & Financing**

On direct, for the same reasons expressed for the water financing application, Staff recommended approval of the sewer financing application with the same conditions as to the maximum interest rate and maturity date.<sup>134</sup>

For the sewer rate application, Staff recommended a pro forma capital structure of 48% equity and 52% debt, based on the maximum amount of long-term debt requested in the sewer financing application.<sup>135</sup> Staff also recommended a cost of debt of 6.29%<sup>136</sup> and a COE of 9.75% based on Mr.

<sup>132</sup> Ex. S-2 at 000082, 000095. Official notice is taken of Decision No. 75626. The policy provides that the basic service charge and first tier volumetric rates combined should produce at least 50% of the total revenue requirement and that the third tier should generate no more than 20% and no less than 10% of the total revenue requirement. (Decision No. 75626 at 13.)

<sup>133</sup> Ex. S-1 at 23.

<sup>134</sup> Ex. S-1 at 21.

<sup>135</sup> Ex. S-1 at 5.

<sup>136</sup> Ex. S-4 at 2; Ex. S-1 at 5.

1 Parcell's COE analyses.<sup>137</sup> Mr. Parcell did not perform a separate COE analysis for Picacho Sewer.<sup>138</sup>

2 On direct, Staff recommended the following TY results, OCRB/FVRB, rate of return, and  
3 revenue increase for Picacho Sewer, as compared to the sewer rate application:<sup>139</sup>

<b>Picacho Sewer</b>	<b>Rate App.</b>	<b>Staff Direct</b>
OCRB/FVRB	\$8,727,430	\$7,691,325
Adjusted TY Revenues	\$954,653	\$954,653
Adjusted Operating Income/Loss	(\$516,700)	(\$451,447)
Current Rate of Return	-5.92%	-5.87%
Required Operating Income	\$829,717	\$610,691
Required Rate of Return	9.51%	7.94%
Operating Income Deficiency	\$1,346,417	\$1,062,138
GRCF	1.3507	1.3498
Required Increase in Gross Revenue	\$1,818,584	\$1,433,686
% Increase in Gross Revenues	190.50%	150.18%

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11 Staff reduced Picacho Sewer's OCRB/FVRB by a total of \$1,036,105 by decreasing PIS for  
12 gravity collection systems by \$721,677 and services to customers by \$409,805 based on Staff's  
13 determination that Picacho Sewer has excess capacity (moving these to PHFFU), adding CIAC of  
14 \$6,103 to reflect a 10% disallowance due to plant for which supporting invoices were unavailable,  
15 increasing PTYP by \$9,993 for structures and improvements to reflect the invoiced total cost of the  
16 PTYP lift station, and decreasing accumulated depreciation by \$91,216 to reflect Staff's recommended  
17 adjustments to PIS.<sup>140</sup>

18 Staff accepted Picacho Sewer's proposed TY revenues and reduced TY operating expenses by  
19 a total of \$65,252 by decreasing sludge removal expense by \$3,381 to eliminate an extra month's  
20 expense, legal contractual services by \$4,907 because of a lack of support, management contractual  
21 services by \$3,408 to eliminate the allocation for one vacant position, other contractual services by  
22 \$8,588 because Staff determined JW Water's Denver office to be unnecessary and to eliminate  
23 "Government Affairs" expenses determined to be for lobbying, salaries and wages by \$5,748 to remove  
24 salaries allocated to Picacho Sewer's prior owner during the TY, depreciation expense by \$30,554 to  
25 be consistent with Staff's recommended PIS, property tax expense by \$2,497 to reflect Staff's  
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27 <sup>137</sup> Ex. S-1 at 5.

<sup>138</sup> See Ex. S-4 at 2.

<sup>139</sup> Ex. S-1 at 000054.

28 <sup>140</sup> Ex. S-1 at 10-12; Tr. at 372-373.

1 calculation using the correct assessment ratio of 15.5%, and income tax expense by \$6,169 to reflect  
2 Staff's calculation based on TY taxable income.<sup>141</sup>

3 Staff recommended the following rate design, as compared to the current rate design and the  
4 sewer rate application:<sup>142</sup>

	Present Rates	Sewer Rate Application	Staff Recommended
<u>MONTHLY SERVICE CHARGE:</u>			
Residential	\$42.00		
Commercial	42.00		
5/8" x 3/4" Meter – Residential, Commercial		\$ 120.96	\$ 104.68
3/4" Meter – Residential, Commercial		120.96	104.68
1" Meter – Residential, Commercial		302.40	261.70
1 1/2" Meter – Residential, Commercial		604.80	523.40
2" Meter – Residential, Commercial		967.68	837.44
3" Meter – Residential, Commercial		1,935.36	1,674.88
4" Meter – Residential, Commercial		3,024.00	2,617.00
6" Meter – Residential, Commercial		6,048.00	5,234.00
8" Meter – Residential, Commercial		9,676.80	8,374.40
10" Meter – Residential, Commercial		13,910.40	12,038.20
12" Meter – Residential, Commercial		18,144.00	15,702.00
<u>COMMODITY RATE:</u> (Per 1,000 gallons)			
Effluent			
All Usage	0.87	0.87	0.87
<u>SERVICE CHARGE:</u>			
Establishment	\$30.00	\$35.00	\$35.00
Reestablishment (Within 12 months)	*	*	*
Reconnection (Delinquent)	\$30.00	\$30.00	\$30.00
Disconnection/Reconnection (Delinquent Account)	\$500.00	Cost**	Cost**
Deposit	***	***	***
Deposit Interest (Per Annum)	****	6%****	6%****
NSF Check	\$15.00	\$30.00	\$30.00
Late Payment Penalty (Per Month)	1.5%	1.5%	1.5%

<sup>141</sup> Ex. S-1 at 13-19.

<sup>142</sup> Ex. S-2 at 000096.

1	Deferred Payment (Per Month)	NT	1.5%	1.5%
2	After-Hours Service Charge (at Customer Request)	NT	\$40.00	\$40.00
3	Road Cutting or Boring	NT	At Cost	At Cost
4	* Per Commission Rule A.A.C. R14-2-603(D) – Months off the system times the monthly service charge.			
5	** Cost: The actual cost of disconnection and reconnection, including costs for excavation and trenching, pipeline modification, backfill and grading, road repairs, and permitting			
6	*** Per Commission Rule A.A.C. R14-2-603(B)(7)			
7	**** Per Commission Rule A.A.C. R14-2-603(B)(3)			
8	NT No Tariff			
9	NOTE: Picacho Sewer may only charge one NSF fee when customers are billed for water and wastewater service on one bill.			
10	In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, or use tax, per Commission Rule R14-2-608(D)(5).			

12 For a residential customer served by a 5/8" x 3/4" meter, Staff's initially recommended rates  
13 would have resulted in the following bill impact:<sup>143</sup>

14	Current Bill	Proposed Bill	\$ Increase	% Increase
15	\$42.00	\$104.68	\$78.96	149.24%

16 Based on Staff's review of Picacho's workpapers and schedules provided regarding rate case  
17 expenses incurred and expected to be incurred before a decision in this matter, Staff originally  
18 recommended a total rate case expense for Picacho Sewer of \$10,000, to be amortized over three years  
19 or until the full amount was recovered, and subject to true up, which would have resulted in a rate case  
20 expense surcharge estimated at \$0.15 per month.<sup>144</sup>

## 21 **VI. Picacho & Staff's Final Unified Positions**

22 Although Picacho and Staff originally disagreed on rate base and the revenue requirement,  
23 Picacho subsequently adopted a number of Staff's adjustments, Staff accepted more of Picacho's  
24 numbers based on additional support, and Picacho and Staff now agree as to both OCRBs/FVRBs and  
25 revenue requirements.<sup>145</sup> Picacho adopted a slightly modified version of Staff's rate design on

27 <sup>143</sup> Ex. S-2 at 00097.

28 <sup>144</sup> Ex. S-1 at 23.

<sup>145</sup> Tr. at 505.

1 rejoinder, and Staff adopted Picacho's rejoinder schedules as Staff's final schedules.<sup>146</sup> Mr. Bourassa  
 2 testified that Picacho accepted Staff's rate design even though it shifted a large amount away from the  
 3 residential class and onto the residential irrigation, commercial, and golf courses and lakes classes.<sup>147</sup>

4 Picacho and Staff now agree on the following TY results, OCRB/FVRB, rate of return, and  
 5 revenue increase for Picacho Water, as compared to the water rate application:<sup>148</sup>

<b>Picacho Water</b>	<b>Rate App.</b>	<b>Picacho &amp; Staff Final</b>
OCRB/FVRB	\$10,802,332	\$9,442,724
Adjusted TY Revenues	\$1,192,224	\$1,179,187
Adjusted Operating Income/Loss	(\$232,032)	(\$185,136)
Current Rate of Return	-2.15%	-1.96%
Required Operating Income	\$1,026,978	\$816,040
Required Rate of Return	9.51%	8.64%
Operating Income Deficiency	\$1,259,010	\$1,001,176
GRCF	1.3511	1.3512
Required Increase in Gross Revenue	\$1,701,041	\$1,352,828
% Increase in Gross Revenues	142.68%	114.73%

13 The OCRB/FVRB reflect Picacho's adoption of Staff's adjustments to PIS for PHFFU, Staff's  
 14 acceptance of Picacho's new transmission line in PTYP, Staff's acceptance of prepayments in rate base,  
 15 and Picacho and Staff's agreement on the appropriate accumulated depreciation to reflect the  
 16 adjustments made to PIS.<sup>149</sup> The plant included in PIS and thus in OCRB/FVRB for Picacho Water  
 17 was installed to serve current customers, not to serve customer growth.<sup>150</sup>

18 The revenue requirement also reflects Picacho's acceptance of Staff's adjustments to TY  
 19 revenues and to expenses for salaries and wages and testing contractual services and Staff's acceptance  
 20 of Picacho's positions as to expenses for purchased power, legal contractual services, management  
 21 contractual services, and JW Water's Denver office.<sup>151</sup> Staff's position changes were the result of  
 22 Staff's review of additional supporting information from Picacho.<sup>152</sup>

23 Further, the revenue requirement reflects Staff's acceptance of Picacho Water's pro forma  
 24

25 <sup>146</sup> Tr. at 516.

<sup>147</sup> Tr. at 235.

26 <sup>148</sup> LFE A-36 at 001.

<sup>149</sup> Ex. A-18 at 017-020; Ex. S-3 at 7; LFE A-36 at 009. The new storage tank project was removed from PTYP, leaving the new transmission line project for Well #1 at a cost of \$314,865. (See LFE A-36 at 009.)

27 <sup>150</sup> Tr. at 65-66; Ex. S-6 at 15.

<sup>151</sup> Ex. S-3 at 8-10.

28 <sup>152</sup> See Ex. S-3 at 8-10.

1 capital structure that includes 70% equity and 30% debt and Picacho's acceptance of Staff's  
 2 recommended COE, which was modified to 9.65% on surrebuttal,<sup>153</sup> and Staff's cost of debt.<sup>154</sup> The  
 3 8.64% rate of return reflects the following WACC calculation:<sup>155</sup>

	Percent	Cost	Weighted Cost
4 <b>Debt</b>	30.00%	6.29%	1.887%
5 <b>Equity</b>	70.00%	9.65%	6.755%
6 <b>Total</b>	100.00%		8.642%

7 Picacho and Staff now agree on the following rate design, as compared to present rates and the  
 8 water rate application:<sup>156</sup>

Picacho Water	Present Rates	Water Rate Application Proposed	Picacho & Staff Final
9 <b>MONTHLY MINIMUM CHARGE:</b>			
10			
11 5/8" x 3/4" Meter	\$ 15.00	\$ 46.05	\$ 27.53
12 3/4" Meter	15.00	46.05	41.29
13 1" Meter	22.00	115.13	68.81
14 1 1/2" Meter	33.00	230.25	137.63
15 2" Meter	44.00	368.40	220.20
16 3" Meter	NT	736.80	440.40
17 4" Meter	88.00	1,151.25	688.13
18 6" Meter	176.00	2,302.50	1,376.25
19 8" Meter	200.00	3,684.00	2,202.00
20 10" Meter	200.00	5,295.75	3,165.38
21 12" Meter	200.00	9,900.75	5,917.88
22 8" Lake/Irrigation	200.00	2,947.20	2,202.00
23 12" Lake/Golf Course Irrigation	200.00	7,920.60	5,917.88
24 Construction – Hydrant	44.00	736.80	440.40

25 <sup>153</sup> Mr. Parcell's updated COE analyses on surrebuttal produced the following results:

Method	Selected Range of Results	Midpoint
26 DCF	9.0% to 10.0%	9.5%
27 CAPM	9.7% to 9.8%	9.75%
28 CE	9.0% to 10.0%	9.5%
RP	9.5% to 10.9%	10.20%
<b>Average of Midpoints</b>		9.74%
<b>Median of Midpoints</b>		9.63%
<b>Recommendation</b>		<b>9.65%</b>

(Ex. S-11.)

<sup>154</sup> Ex. S-5 at 000250; Ex. A-18 at 037.

<sup>155</sup> See Ex. A-18 at 037.

<sup>156</sup> LFE A-34; Ex. A-33; Ex. A-18 at 095; LFE A-36.

<u>COMMODITY RATES:</u> (Per 1,000 gallons)			
Residential & Commercial			
All Usage	\$ 3.00		
Irrigation			
All Usage	0.87	NT	NT
5/8" x 3/4" Meter and 3/4" Meter – Residential			
0 to 4,000 gallons		\$ 3.2140	\$ 2.09
4,001 to 10,000 gallons		4.4640	3.74
Over 10,000 gallons		5.7140	7.36
5/8" x 3/4" Meter and 3/4" Meter – Commercial, Irrigation			
0 to 10,000 gallons		4.4640	3.74
Over 10,000 gallons		5.7140	7.36
1" Meter – Residential, Commercial, Irrigation			
0 to 25,000 gallons		3.2140	3.74
Over 25,000 gallons		4.4640	7.36
1 1/2" Meter – Residential, Commercial, Irrigation			
0 to 50,000 gallons		4.4640	3.74
Over 50,000 gallons		5.7140	7.36
2" Meter – Residential, Commercial, Irrigation			
0 to 80,000 gallons		4.4640	3.74
Over 80,000 gallons		5.7140	7.36
3" Meter – Residential, Commercial, Irrigation			
0 to 160,000 gallons		4.4640	3.74
Over 160,000 gallons		5.7140	7.36
4" Meter – Residential, Commercial, Irrigation			
0 to 250,000 gallons		4.4640	3.74
Over 250,000 gallons		5.7140	7.36
6" Meter – Residential, Commercial, Irrigation			
0 to 500,000 gallons		4.4640	3.74
Over 500,000 gallons		5.7140	7.36

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8" Meter – Residential, Commercial, Irrigation			
0 to 800,000 gallons		4.4640	3.74
Over 800,000 gallons		5.7140	7.36
10" Meter – Residential, Commercial, Irrigation			
0 to 1,150,000 gallons		4.4640	3.74
Over 1,150,000 gallons		5.7140	7.36
12" Meter – Residential, Commercial, Irrigation			
0 to 2,150,000 gallons		4.4640	3.74
Over 2,150,000 gallons		5.7140	7.36
8" Meter – Lake/Irrigation – Non-Potable Water <sup>(1)</sup>			
All gallons		2.8570	3.74
12" Meter – Lake/Golf Course Irrigation – Non-Potable Water <sup>(1)</sup>			
All gallons		2.8570	3.74
Construction – Hydrant			
All gallons	3.00	5.7140	7.36
<sup>(1)</sup> Non-potable water is to be used unless the source well is off-line for repairs and/or maintenance.			

<u>REFUNDABLE METER AND SERVICE LINE CHARGES:</u> (Refundable pursuant to A.A.C. R14-2-405)						
	Present Rates	Water Rate Application	Picacho & Staff Final			
			Service Line	Meter Charge	Total Charge	
5/8" x 3/4" Meter	NT	At Cost	\$ 1,500	\$ 175	\$ 1,675	
3/4" Meter	NT	At Cost	1,800	200	2,000	
1" Meter	NT	At Cost	2,100	300	2,400	
1 1/2" Meter	NT	At Cost	2,320	500	2,820	
2" Meter	NT	At Cost	3,240	1,650	4,890	
3" Meter	NT	At Cost	5,210	3,200	8,410	
4" Meter	NT	At Cost	6,230	4,500	10,730	
6" Meter and Larger	NT	At Cost	At Cost	At Cost	At Cost	

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	Present Rates	Water Rate Application	Picacho & Staff Final
<u>HYDRANT METER DEPOSIT:</u>			
(non-interest bearing and fully refundable upon return of meter in good condition and payment of final bill)			
<u>Hydrant Meter Deposit – 3" Meter</u>	NT	\$740.00	\$740.00

	Present Rates	Water Rate Application	Picacho & Staff Final
<u>SERVICE CHARGES:</u>			
Establishment	\$25.00	\$35.00	\$35.00
Establishment (After Hours)	\$37.50	Remove	NT
Reconnection (Delinquent)	\$25.00	\$30.00	\$30.00
Meter Test (If Correct)	\$30.00	\$30.00	\$30.00
Deposit	*	*	*
Deposit Interest	*	6.0%	6.0%
Reestablishment (Within 12 Months)	**	**	**
NSF Check	\$10.00	\$30.00	\$30.00
Deferred Payment (Per Month)	\$15.00	1.5%	1.5%
Meter Reread (If Correct)	*** 1.5%	\$30.00	\$30.00
Late Payment Penalty	NT	Greater of \$5.00 or 1.50% of unpaid balance	Greater of \$3.00 or 1.5% of unpaid balance
After-Hours Service Charge (at Customer Request)	NT	\$40.00	\$40.00
<u>Monthly Service Charge for Fire Sprinkler:</u>			
4" or Smaller	****	****	****
6"	****	****	****
8"	****	****	****
10"	****	****	****
Larger than 10"	****	****	****

\* Per A.A.C. R14-2-403(B) Residential – two times the average bill by class. Non-residential – two and one-half times the customer’s estimated maximum monthly bill.

\*\* Months off system times the monthly minimum per A.A.C. R14-2-403(D)

\*\*\* 1.50% per month of unpaid balance

\*\*\*\* 1% of monthly minimum for a comparable sized meter connection, but not less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

NT No Tariff

NOTE: Picacho Water may only charge one NSF fee when customers are billed for water and wastewater service on one bill.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, or use tax, per Commission Rule R14-2-409(D)(5).

For a residential customer served by a 5/8” x 3/4” meter with average or median monthly consumption, the rates agreed upon by Picacho and Staff would result in the following bill impact:<sup>157</sup>

Usage	Current Bill	Proposed Bill	\$ Increase	% Increase
Average (5,003 gallons)	\$30.01	\$39.64	\$9.63	32.09%
Median (3,500 gallons)	\$25.50	\$34.84	\$9.34	36.63%

For a “residential irrigation” customer served by a 5/8” x 3/4” meter with average or median monthly consumption, the rates agreed upon by Picacho and Staff would result in the following bill impact:<sup>158</sup>

Usage	Current Bill	Proposed Bill	\$ Increase	% Increase
Average (34,153 gallons)	\$117.46	\$242.69	\$125.23	106.62%
Median (26,500 gallons)	\$94.50	\$186.37	\$91.87	97.22%

Picacho and Staff have agreed on \$53,000 in total rate case expense, to be split 50/50 between the Picacho utilities, to be collected through a surcharge over a period of three years, with a true-up to

<sup>157</sup> See LFE A-36 at 082, 083. These do not include the proposed rate case expense surcharge, which would add another \$0.38 per month. (*Id.*)

<sup>158</sup> See LFE A-36 at 082, 083. These do not include the proposed rate case expense surcharge, which would add another \$0.38 per month. (*Id.*)

1 ensure that Picacho does not over-recover and that the amount collected through the surcharges is equal  
 2 to a total of \$53,000 or such lower amount as Picacho ultimately incurs in this matter.<sup>159</sup> The \$26,500  
 3 in rate case expense for Picacho Water would result in an estimated surcharge of \$0.38/month.<sup>160</sup> This  
 4 amount is reduced from the original amount of \$62,500 requested for each of the Picacho utilities.<sup>161</sup>

5 As a condition of accepting Staff's position on PHFFU, Picacho requested that it be granted  
 6 explicit authority to defer the depreciation on the PHFFU, meaning that when the PHFFU is determined  
 7 used and useful and goes into PIS and rate base in a subsequent rate case, Picacho would have the  
 8 opportunity to recover the depreciation expense that it continued to accrue over the time that the plant  
 9 was held in PHFFU, by having the accrued depreciation included in rate base as a regulatory asset.<sup>162</sup>  
 10 At hearing, counsel for Picacho agreed to stipulate that Picacho would not request to recover any  
 11 carrying costs on the balance of the deferred depreciation amount.<sup>163</sup> Mr. Bourassa also testified that  
 12 it would not be appropriate to add carrying costs on the deferred depreciation and that there is no  
 13 guarantee that the Commission will approve inclusion of the deferred depreciation in rate base for  
 14 recovery in a future rate case.<sup>164</sup> Staff agreed that it was appropriate for Picacho to be permitted to  
 15 defer this depreciation on PHFFU, with this understanding.<sup>165</sup>

16 Picacho and Staff now agree on the following TY results, OCRB/FVRB, rate of return, and  
 17 revenue increase for Picacho Sewer, as compared to the sewer rate application:<sup>166</sup>

<b>Picacho Sewer</b>	<b>Rate App.</b>	<b>Picacho &amp; Staff Final</b>
OCRB/FVRB	\$8,727,430	\$7,665,761
Adjusted TY Revenues	\$954,653	\$954,653
Adjusted Operating Income/Loss	(\$516,700)	(\$482,201)
Current Rate of Return	-5.92%	-6.29%
Required Operating Income	\$829,717	\$662,475
Required Rate of Return	9.51%	8.64%
Operating Income Deficiency	\$1,346,417	\$1,144,676
GRCF	1.3507	1.3510
Required Increase in Gross Revenue	\$1,818,584	\$1,546,479

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 20  
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 22  
 23  
 24  
 25 <sup>159</sup> Tr. at 517-518; Ex. A-24 at 7-9; see Ex. A-18 at 4.

26 <sup>160</sup> Ex. A-24 at 7, 9.

27 <sup>161</sup> Ex. A-19 at 11-12; Ex. A-21 at 10-11; Ex. A-17 at 11.

28 <sup>162</sup> Tr. at 111-113, 359.

<sup>163</sup> Tr. at 115.

<sup>164</sup> Tr. at 359-360.

<sup>165</sup> See Tr. at 360-361.

<sup>166</sup> Ex. A-18 at 112.

% Increase in Gross Revenues	190.50%	161.99%
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1  
2 On rejoinder, Picacho adopted Staff's surrebuttal positions for Picacho Sewer but with slight  
3 corrections to property tax expense and depreciation expense, resulting in the same OCRB/FVRB,  
4 required operating income, and required rate of return and a very slightly lower operating loss, current  
5 rate of return, operating income deficiency, and required increase in gross revenues.<sup>167</sup> The  
6 OCRB/FVRB reflect Picacho's adoption of Staff's adjustments to PIS for PHFFU, Staff's acceptance  
7 of prepayments in rate base, and Picacho and Staff's agreement on the appropriate accumulated  
8 depreciation to reflect the adjustments made to PIS.<sup>168</sup> The plant included in PIS and thus in  
9 OCRB/FVRB for Picacho Sewer was installed to serve current customers, not to serve customer  
10 growth.<sup>169</sup>

11 The revenue requirement reflects Picacho's acceptance of Staff's adjustments to expenses for  
12 sludge removal, other contractual services, and salaries and wages and Staff's acceptance of Picacho's  
13 positions as to expenses for legal contractual services, management contractual services, and JW  
14 Water's Denver office.<sup>170</sup>

15 Further, the revenue requirement reflects Staff's acceptance of Picacho Sewer's pro forma  
16 capital structure that includes 70% equity and 30% debt and Picacho's acceptance of Staff's  
17 recommended COE of 9.65% and Staff's cost of debt of 6.29%, which resulted in a rate of return of  
18 8.64% based on the same WACC calculation as used for Picacho Water.<sup>171</sup>

19 Picacho and Staff now agree on the following rate design, as compared to present rates and the  
20 sewer rate application:<sup>172</sup>

21 . . .

22 . . .

25  
26 <sup>167</sup> Ex. A-18 at 2-3.

<sup>168</sup> Ex. A-18 at 119, 121, 124; Ex. S-3 at 7.

<sup>169</sup> Tr. at 65-66; Ex. S-6 at 15.

<sup>170</sup> Ex. A-18 at 130; Ex. S-3 at 9-10.

<sup>171</sup> See Ex. A-18 at 135; Ex. S-5 at 000250.

<sup>172</sup> Ex. A-18 at 197-198; Tr. at 516.

<b>Picacho Sewer</b>	<b>Present Rates</b>	<b>Sewer Rate Application</b>	<b>Picacho &amp; Staff Final</b>
<b>MONTHLY SERVICE CHARGE:</b>			
Residential	\$42.00		
Commercial	42.00		
5/8" x 3/4" Meter – Residential, Commercial		\$ 120.96	\$ 109.00
3/4" Meter – Residential, Commercial		120.96	163.50
1" Meter – Residential, Commercial		302.40	272.50
1 1/2" Meter – Residential, Commercial		604.80	545.00
2" Meter – Residential, Commercial		967.68	872.00
3" Meter – Residential, Commercial		1,935.36	1,744.00
4" Meter – Residential, Commercial		3,024.00	2,725.00
6" Meter – Residential, Commercial		6,048.00	5,450.00
8" Meter – Residential, Commercial		9,676.80	8,720.00
10" Meter – Residential, Commercial		13,910.40	12,535.00
12" Meter – Residential, Commercial		18,144.00	16,350.00
<b>COMMODITY RATE:</b> (Per 1,000 gallons)			
Effluent			
All Usage	0.87	0.87	0.87
<b>SERVICE CHARGE:</b>			
Establishment	\$30.00	\$35.00	\$35.00
Reestablishment (Within 12 months)	*	*	*
Reconnection (Delinquent)	\$30.00	\$30.00	\$30.00
Disconnection/Reconnection (Delinquent Account)	\$500.00	Cost**	Cost**
Deposit	***	***	***
Deposit Interest (Per Annum)	****	6%****	6%****
NSF Check	\$15.00	\$30.00	\$30.00
Late Payment Penalty (Per Month)	1.5%	1.5%	1.5%
Deferred Payment (Per Month)	NT	1.5%	1.5%
After-Hours Service Charge (at Customer Request)	NT	\$40.00	\$40.00
Road Cutting or Boring	NT	At Cost	At Cost

1 \* Per Commission Rule A.A.C. R14-2-603(D) – Months off the system times the  
 2 monthly service charge.  
 3 \*\* Cost: The actual cost of disconnection and reconnection, including costs for  
 4 excavation and trenching, pipeline modification, backfill and grading, road repairs,  
 5 and permitting  
 6 \*\*\* Per Commission Rule A.A.C. R14-2-603(B)(7)  
 7 \*\*\*\* Per Commission Rule A.A.C. R14-2-603(B)(3)  
 8 NT No Tariff  
 9 NOTE: Picacho Sewer may only charge one NSF fee when customers are billed for water and  
 wastewater service on one bill.

In addition to the collection of regular rates, the utility will collect from its customers a  
 proportionate share of any privilege, sales, or use tax, per Commission Rule R14-2-608(D)(5).

10 For a residential customer served by a 5/8" x 3/4" meter, the rates agreed upon by Picacho and Staff  
 11 would result in the following bill impact:<sup>173</sup>

Current Bill	Proposed Bill	\$ Increase	% Increase
\$42.00	\$109.00	\$67.00	159.52%

14 As stated previously, Picacho and Staff have agreed on \$53,000 in total rate case expense, to  
 15 be split 50/50 between the two utilities, collected through a surcharge over three years, and with a true-  
 16 up to the actual amount spent.<sup>174</sup> For Picacho Sewer, this would result in an estimated surcharge of  
 17 \$0.39/month for each customer.<sup>175</sup>

18 As described above for Picacho Water, Picacho and Staff have also agreed on Picacho Sewer's  
 19 receiving explicit approval to defer the depreciation on PHFFU, for potential recovery in a future rate  
 20 case.

21 At hearing, Mr. Aten added a recommendation that Picacho Sewer file a sewer main extension  
 22 agreement tariff and plan of administration within 60 days of a decision in this matter.<sup>176</sup> Mr. Aten  
 23 made this recommendation because Picacho has indicated that it is in the process of engaging in main  
 24 extension agreements and, while water main extension agreement are reviewed and approved by Staff,  
 25 the Commission does not review sewer main extension agreements and instead by rule requires sewer

26 \_\_\_\_\_  
 27 <sup>173</sup> Ex. A-18 at 195.  
<sup>174</sup> Tr. at 517-518; Ex. A-24 at 7-9; see Ex. A-18 at 4.  
<sup>175</sup> Ex. A-24 at 9.  
 28 <sup>176</sup> Tr. at 479.

1 utilities to have a tariff.<sup>177</sup>

2 Picacho and Staff have reached agreement on the conditions for approval of the water financing  
3 application and sewer financing application, with Picacho accepting Staff's proposed conditions.<sup>178</sup>  
4 Staff calculated, based on Staff's final recommended revenue requirements and the maximum amount  
5 of long-term debt for which Picacho requested authority, that the DSC and TIER for Picacho Water  
6 would be 4.65 and 4.28 and for Picacho Sewer would be 2.52 and 2.33.<sup>179</sup>

## 7 **VII. Intervenors' Positions**

8 While Mr. McBeth did not provide any evidence during this matter, Mr. Salmon presented his  
9 own testimony and several exhibits. Mr. Salmon readily conceded that he is not a ratemaking expert,  
10 and he did not hire a ratemaking expert to provide testimony in this matter.<sup>180</sup> Mr. Salmon's testimony  
11 largely focused on the size of the requested revenue and rate increases, Picacho not proposing a more  
12 balanced capital structure, his perception both that Robson Ranch customers were "targeted" by  
13 Picacho for unfair treatment and that Picacho is callous to the concerns of Robson Ranch residents, and  
14 his concerns related to CVC-DIF being a foreign entity and obtaining access to American water  
15 rights.<sup>181</sup> Mr. Salmon also expressed concern that Picacho Sewer stated it needed to increase rates now  
16 because of its new WRP project, which will cause it to need to increase rates again in the near future,  
17 meaning that Robson Ranch residents will be "hammered by multiple huge rate increases."<sup>182</sup>

18 Mr. Salmon requests that the Commission impute a more balanced capital structure with lower  
19 equity, proposing 50% equity and 50% debt, although he provided no expert evidence to support this  
20 capital structure and did not calculate the difference in the revenue requirements that would result.<sup>183</sup>  
21 Mr. Salmon acknowledged that his 50/50 capital structure proposal is based entirely on its being a

22 \_\_\_\_\_  
<sup>177</sup> Tr. at 479-480.

23 <sup>178</sup> Picacho's acceptance of Staff's conditions for approval of the financing applications is inferred from Picacho's failure  
24 to contest those conditions in its Rejoinder Testimony, at hearing, or in its post-hearing brief, as well as its acceptance of  
Staff's recommended cost of debt for ratemaking purposes.

<sup>179</sup> See Ex. S-9; Ex. S-10.

25 <sup>180</sup> See Ex. RS-1 at 4.

26 <sup>181</sup> See, e.g., Ex. RS-1 at 4, 6; Ex. RS-2 at 3, 4, 8-9. Mr. Salmon's assertions as to the unfairness of the proposed rates are  
27 based at least in part upon the rates of nearby utility providers, including municipalities, which the City of Eloy had  
summarized in a May 2025 "Rate Study" by a consultant. (See Ex. RS-4 at 3-4.) Mr. Salmon also cited with approval the  
City of Eloy's plan to phase in increases to its water and wastewater rates over a five-year period. (Tr. at 453-454; see Ex.  
RS-4 at 9-13.)

28 <sup>182</sup> Ex. RS-1 at 6.

<sup>183</sup> Tr. at 400, 403.

1 means to reduce the amount to be paid by ratepayers.<sup>184</sup> Mr. Salmon opined that Picacho has not made  
 2 any efforts to mitigate the impact of the rate increases and questioned the accuracy of Ms. Schwartz's  
 3 testimony to the effect that the 70/30 capital structure was intended to mitigate the impact of the rate  
 4 increases and that Picacho's acceptance of Staff's \$2 million deduction to rate base was made to  
 5 mitigate the impact of the rate increases.<sup>185</sup>

6 Mr. Salmon opined that it is unfair to the ratepayers to allow Picacho to obtain "20 years of rate  
 7 increases all at once, plus more" and would send the wrong signal to utilities that they can fail to have  
 8 a rate case for more than 20 years and then get "whatever [they] want without any consequence for  
 9 [their] own inaction."<sup>186</sup> He emphasized that Robson Ranch is a "retirement community," with many  
 10 residents "on fixed incomes."<sup>187</sup> Mr. Salmon acknowledged that paying the increased bills will not  
 11 present a hardship for him but characterized it as "a shock to [his] budget."<sup>188</sup> Mr. Salmon did not  
 12 know whether anyone in Robson Ranch would qualify for bill assistance under a low-income tariff, if  
 13 such a tariff were adopted.<sup>189</sup> He asserted that the Robson Ranch community's interests are not being  
 14 properly considered because the rates proposed are significantly higher than those for other utilities in  
 15 the area and will make it harder for people in Robson Ranch to sell their homes.<sup>190</sup> Mr. Salmon also  
 16 expressed concern that Picacho had not made an effort in discovery to enumerate the ways in which its  
 17 new ownership is good for customers, seeing that as a sign that Picacho is only interested in maximizing  
 18 its returns and not in its customers.<sup>191</sup> Mr. Salmon expressed satisfaction with the service provided by

19 \_\_\_\_\_  
 184 Tr. at 445-446.

20 185 Tr. at 447-450; *see* Ex. A-5 at 008-009. Mr. Salmon opined that Picacho does not care enough about its ratepayers to  
 21 do anything to mitigate the impact on ratepayers without an ulterior motive. (Tr. at 450-451.) Subsequently, he clarified  
 that he did not mean to imply that Ms. Schwartz lied in her testimony. (Tr. at 462.)

22 186 Tr. at 384.

23 187 Tr. at 384. Mr. Salmon later clarified that he meant residents receive Social Security and pension payments, and perhaps  
 have investments, but that they do not have paychecks, although he then acknowledged that some residents "refuse to  
 retire." (Tr. at 464-465.)

24 188 Tr. at 385, 399. Mr. Salmon further testified that the amount he pays for water and sewer "has nothing to do with what  
 25 amount of money [he has]" and that he can afford to pay the increased rates. (Tr. at 405-406.) Mr. Salmon testified that  
 he is "sure there will be something" that he will need to "rearrange" due to the increased utility bills because he is "on a  
 26 fixed income." (Tr. at 406.) Mr. Salmon acknowledged that it could be not putting as much money into a savings account  
 or into stocks, or not taking a cruise, but that he is not existing only on Social Security income and will not need to sacrifice  
 on things like including meat in his diet. (Tr. at 408.) Mr. Salmon acknowledged that ratepayers under the agreed-upon  
 rates would be required to pay approximately \$950 more per year for utility services and stated that he personally would be  
 27 required to pay approximately \$1,300 more per year. (Tr. at 416-417.)

28 189 Tr. at 433-434.

190 Tr. at 385.

191 Tr. at 397; *see* Ex. RS-3.

1 Picacho to his home during his time living in Robson Ranch.<sup>192</sup> Mr. Salmon “feel[s] like [his]  
2 community has been targeted as an investment opportunity.”<sup>193</sup> While Mr. Salmon acknowledged that  
3 the rate design agreed upon by Picacho and Staff shifts additional revenue to commercial properties,  
4 he also stated that it is the residents who will actually pay those increases through increased costs at  
5 the restaurant and their Robson HOA dues.<sup>194</sup> Further, Mr. Salmon stated, if the golf course were to  
6 close because the cost of water became unsustainable, the homes in Robson Ranch would be worth far  
7 less, and Robson Ranch would not see additional growth.<sup>195</sup> Mr. Salmon acknowledged that the  
8 numbers he had seen in the rate case, if accurate, indicate that the Picacho utilities have been  
9 underearning.<sup>196</sup>

10 Mr. Salmon asked that the Commission explore setting rates based on a cash flow model, to  
11 allow Picacho to remain healthy but protect ratepayers from rate shock, and suggested that the  
12 Commission allow Picacho to break even rather than earning a return on its rate base.<sup>197</sup> Mr. Salmon  
13 also asked that the Commission explore phasing in the rate increase to allow ratepayers time to adjust  
14 their budgets.<sup>198</sup> He acknowledged that a phase-in would result in higher rates than requested by  
15 Picacho during the final phase, and that it could result in customers paying more in total (though he  
16 thought “something could be worked out”), but said that he believed it would help, although he said  
17 that he would want to see the numbers.<sup>199</sup> Mr. Salmon suggested that the Commission could impose a  
18 “stay-out” requirement along with a phase-in scheme, although he acknowledged that the stay-out  
19 would not result in a reduction in the rates being paid, it would just keep Picacho from filing for another  
20 rate case during the phase-in period.<sup>200</sup> Mr. Salmon acknowledged that he did not have any basis upon  
21 which to challenge the operating costs that Picacho has proposed and Staff has accepted or to challenge  
22 the fair value of any plant item included in rate base by Picacho and Staff because he is not an expert

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24 <sup>192</sup> Tr. at 397.

25 <sup>193</sup> Tr. at 398.

26 <sup>194</sup> Tr. at 399.

27 <sup>195</sup> Tr. at 399.

28 <sup>196</sup> Tr. at 400-401, 410, 455-456.

<sup>197</sup> See Tr. at 410-416.

<sup>198</sup> Tr. at 401, 452.

<sup>199</sup> Tr. at 453-455.

<sup>200</sup> Tr. at 473.

1 in ratemaking.<sup>201</sup> Mr. Salmon also expressed a belief that there is “additional information that was not  
 2 perhaps disclosed” to the Commission, such as agreements with the Robson entities “that may exist  
 3 that have caused certain other things to happen.”<sup>202</sup> Mr. Salmon specifically mentioned “any of the  
 4 agreements that were signed for the sale.”<sup>203</sup> Mr. Salmon asserted that the revenue requirement agreed  
 5 upon by Picacho and Staff is “overstated” but agreed that he was not providing any ratemaking  
 6 evidence and just wants the Commission to do something to mitigate rate shock.<sup>204</sup>

7 Mr. Salmon also expressed concern that CVC DIF is a foreign entity because he considers it  
 8 “unAmerican” for a foreign entity to own a natural resource such as water and was unclear whether  
 9 CVC DIF now owns the water.<sup>205</sup> Yet Mr. Salmon acknowledged that if a foreign investor makes an  
 10 investment, they should be able to get a return on that investment.<sup>206</sup>

#### 11 **VIII. Arguments & Resolution of Each**

12 There are no remaining contested issues between Picacho and Staff, who now agree how the  
 13 revenue requirement should be established for each Picacho utility, what it should be, and what the  
 14 rates should be. The Intervenors contest these shared positions.<sup>207</sup> Yet, Mr. Salmon did not provide  
 15 expert testimony or analyses related to his positions in this matter, did not dispute the data provided by  
 16 Picacho and Staff, and did not provide data to support his positions, making it appropriate to  
 17 characterize the contested issues that the Commission must address and resolve in this matter as policy  
 18 and legal issues. In the end, in their brief, the Intervenors’ arguments are that:

- 19 • The Commission should set Picacho’s rates based on operating margin rather than a return on  
 20 equity;
- 21 • If the Commission uses a return on equity to set Picacho’s rates:
  - 22 ○ The Commission should use an imputed capital structure with 50% equity and 50%  
 23 debt;

24 <sup>201</sup> Tr. at 429-430, 432, 451-452.

25 <sup>202</sup> Tr. at 439.

26 <sup>203</sup> Tr. at 440.

27 <sup>204</sup> Tr. at 441-442.

28 <sup>205</sup> Tr. at 418-419, 422-423, 425.

<sup>206</sup> Tr. at 424.

<sup>207</sup> While only Mr. Salmon provided any evidence as an intervenor in this matter, the brief filed for Mr. Salmon is entitled “Raul Salmon and Scott McBeth Brief.” Thus, we conclude that the arguments made by Mr. Salmon on brief are also made by Mr. McBeth.

- 1           ○ The Commission should use a rate base with an imputed level of CIAC and AIAC to
- 2           ensure that growth pays for growth; and
- 3           ○ The return on equity should be 9.0% or lower; and
- 4           • The Commission should order a phase-in of rates over a period of no less than five years and
- 5           should structure the phase-in rates so that Picacho does not recover the revenue lost during the
- 6           phase-in period.

7           The Intervenors' brief includes as an overriding theme the arguments that the law requires rates  
8 to be fair to ratepayers as well as utilities, which the Intervenors argue the rates agreed upon by Picacho  
9 and Staff are not, and, essentially, that Picacho should not be rewarded for its failure to come in for a  
10 rate case since its CC&Ns were obtained. The Intervenors further argue that the Commission has  
11 historically modified rate proposals that are found to be unfair to ratepayers. These arguments underlie  
12 all of the Intervenors' positions, and we set them forth here rather than repeating them in the discussion  
13 of specific issues to be resolved herein.

14           According to the Intervenors, more than 120 years of caselaw establish that just and reasonable  
15 rates must be fair to ratepayers as well as to the utility seeking a rate increase, and Picacho and Staff's  
16 shared position is unfair to ratepayers and completely disregards the ratepayers.<sup>208</sup> The Intervenors  
17 point to a 1906 case, *Salt River Valley*, which preceded the formation of the Commission through the  
18 Arizona Constitution, stating that "[t]he effect of the rate upon persons to whom services are rendered  
19 is as deep a concern in the fixing thereof as is the effect upon the stockholders or bondholders" and that  
20 "[a] reasonable rate is one which is as fair as possible to all whose interests are involved."<sup>209</sup> The  
21 Intervenors further point to a U.S. Supreme Court case from 1896, which was cited in *Salt River Valley*  
22 and stated that the rights of the public, not just those of stockholders, must be considered when the  
23 rates to be charged for a turnpike toll are established and that such rates must be reasonable.<sup>210</sup>  
24 Additionally, the Intervenors cite a 1979 Arizona Supreme Court case,<sup>211</sup> in which the court cited *Salt*

25 \_\_\_\_\_  
26 <sup>208</sup> Intervenor Br. at 4-5, 6-7.

27 <sup>209</sup> Intervenor Br. at 7 (quoting *Salt River Valley Canal Co. v. Nelssen*, 10 Ariz. 9 (1906) ("*Salt River Valley*"), issued by  
the Supreme Court of the Territory of Arizona.)

28 <sup>210</sup> Intervenor Br. at 7-8 (quoting *Salt River Valley*, 10 Ariz. at 13-14 (quoting *Covington & L. Tpk. Rd. Co. v. Sandford*,  
164 U.S. 578 (1896)).

<sup>211</sup> *Ariz. Cmty. Action Assoc. v. Ariz. Corp. Comm'n*, 123 Ariz. 228 (1979) ("*Ariz. Cmty. Action*").

1 *River Valley* for the principle that Arizona jurisprudence “made it plain long ago that the interests of  
 2 public-service corporation stockholders must not be permitted to overshadow those of the public  
 3 served,”<sup>212</sup> and a 2004 Arizona Court of Appeals case,<sup>213</sup> in which the court cited both the 1979 case  
 4 and *Salt River Valley* for the principle that “courts have consistently held that ‘just and reasonable rates’  
 5 are those that are fair to both consumers and public service corporations.”<sup>214</sup>

6 Despite this caselaw, the Intervenors argue, Picacho and Staff have acknowledged that their  
 7 positions were “developed without any consideration of the ratepayers.”<sup>215</sup> To support this assertion,  
 8 the Intervenors cite to Ms. Schwartz’s testimony that Picacho’s position was based on “the math,” Mr.  
 9 Aten’s testimony that his recommendations were not influenced by the rate impact to the community,  
 10 Mr. Parcell’s testimony that his analyses did not consider the impact on ratepayers, and Ms. Perez-  
 11 Palacios’s testimony that “Staff does not base rates off of affordability” and that consideration of the  
 12 characteristics of Picacho’s customers did not influence her recommendations.<sup>216</sup> The Intervenors  
 13 argue that Picacho’s and Staff’s failure to consider fairness to ratepayers was unlawful and thus that  
 14 Picacho and Staff’s shared position must be rejected.<sup>217</sup>

15 The Intervenors argue that the “extraordinary period of time without a rate case set the stage  
 16 for the enormous rate increases that are currently proposed,” as Picacho Water’s rates were set in 1998  
 17 and Picacho Sewer’s rates were set in 1999.<sup>218</sup> The Intervenors argue that Picacho’s suggestion that  
 18 ratepayers have benefited from the lack of a rate case during this time “make[s] matters worse” because  
 19 choosing not to file for rate cases so as to keep the rates low was self-serving for the Robson entities,  
 20 which owned the Picacho utilities until recently, and because most people now living in Robson Ranch  
 21 have not lived there for the last 27 years and thus did not benefit all of that time.<sup>219</sup> The Intervenors  
 22 add that “the argument that rate shock is okay because ratepayers benefited from lower rates before has  
 23 not been well-received by the Commission in the past,” based on Commissioner Márquez Peterson’s

24 <sup>212</sup> Intervenor Br. at 8 (quoting *Ariz. Cmty. Action*, 123 Ariz. at 231 (citing *Salt River Valley*, 10 Ariz. at 13)).

25 <sup>213</sup> *Phelps Dodge Corp. v. Ariz. Elec. Power Co-op., Inc.*, 207 Ariz. 95 (App. 2004) (“*Phelps Dodge*”).

26 <sup>214</sup> Intervenor Br. at 8 (quoting *Phelps Dodge*, 207 Ariz. at 106-107 (citing *Ariz. Cmty. Action*, 123 Ariz. at 231; *Salt River Valley*, 10 Ariz. at 13)).

27 <sup>215</sup> Intervenor Br. at 9.

28 <sup>216</sup> Intervenor Br. at 9 (citing Ex. A-7 at 6; Tr. at 280, 491, 505, 509-510).

<sup>217</sup> Intervenor Br. at 9.

<sup>218</sup> Intervenor Br. at 11 (citing Decision Nos. 61266 and 61994).

<sup>219</sup> Intervenor Br. at 11-12 (citing Ex. A-7 at 4).

1 dissent in an Ajo Improvement Company (“AIC”) rate case,<sup>220</sup> which called out such an argument by  
2 AIC as “insulting to customers.”<sup>221</sup> The Intervenors argue that Picacho’s customers did not request  
3 subsidized rates and that they “should not be forced to pay the steep price that stems from [Picacho’s]  
4 failure to adopt business practices that mitigate rate shock.”<sup>222</sup>

5 The Intervenors argue that the Commission highly prioritizes ensuring that utility rates are fair  
6 to customers, citing the AIC rate case.<sup>223</sup> Intervenors point out that in the AIC rate case, although AIC  
7 and Staff had reached agreement as to revenue requirements, a five-year phase-in for water rates, and  
8 a seven-year phase-in for sewer rates, the Commission rejected the joint position of AIC and Staff and  
9 determined that further rate mitigation was needed to “strike a fairer balance between the Company’s  
10 need to cover its operating expenses and the burden on ratepayers,” noting that AIC’s business  
11 decisions had been made without regard to rate impacts and that AIC had not filed periodic rate  
12 applications that could have mitigated the magnitude of the rate increases requested.<sup>224</sup> The  
13 Commission decision extended the phase-in of rates to a 10-year period for all three utility services,  
14 stating that it was “not reasonable or fair to ratepayers to seek such substantial increases over the  
15 periods suggested by AIC and Staff” due to AIC’s management decisions; ordered that a cash flow  
16 methodology be used to set a 5% operating margin for the AIC divisions at the end of the phase-in; did  
17 not allow AIC to recover any revenues forgone during the phase-in period; and prohibited AIC from  
18 filing a rate application for any utility division before 2027 and from filing rate applications for all  
19 three utility divisions in the same year.<sup>225</sup> The Intervenors assert that the Commission has numerous  
20 tools it can use to mitigate impacts on ratepayers and fulfill its legal duty to balance utility and ratepayer  
21 interests and that the Commission should use tools similar to those used in the AIC rate case to mitigate  
22 rate shock and make the rates fair for ratepayers in this matter.<sup>226</sup>

23 Additionally, the Intervenors assert that the Commission is not required to approve the water  
24

25 <sup>220</sup> The AIC rate case involved AIC rate applications for its electric division, wastewater division, and water division and  
culminated in Decision No. 77287 (July 19, 2019), of which official notice is taken herein.

26 <sup>221</sup> Intervenor Br. at 12 (quoting Commissioner Márquez Peterson’s Dissent to Decision No. 77287).

27 <sup>222</sup> Intervenor Br. at 12.

28 <sup>223</sup> Intervenor Br. at 14-15.

<sup>224</sup> Intervenor Br. at 15 (quoting Decision No. 77287 at 23).

<sup>225</sup> Intervenor Br. at 15-16 (quoting Decision No. 77287 at 23 and citing Decision No. 77287 at 23-24, 48).

<sup>226</sup> Intervenor Br. at 16.

1 rate application and sewer rate application at all because the joint positions taken by Picacho and Staff  
 2 constitute “a rate proposal that is not just and reasonable” and that must be rejected.<sup>227</sup> Rather than  
 3 providing an outright rejection, however, the Intervenors urge, “ratepayers are better served when the  
 4 Commission uses the threat of rejection to leverage greater concessions from the utility” because  
 5 “utilities regularly agree to significant concessions when it is clear their rate application is at risk.”<sup>228</sup>

6 **A. Manner of Determining Revenue Requirement – Return on Rate Base vs.**  
 7 **Operating Margin**

8 **1. Picacho & Staff**

9 Picacho points out that the Arizona Constitution, Art. 15, § 3 obligates the Commission to set  
 10 “just and reasonable” rates for public service corporations and that Arizona caselaw establishes that  
 11 this shall be done through a quasi-judicial process that requires the ALJ to consider evidence and  
 12 argument and the Commission to base its conclusions on evidence adequate to support all pertinent and  
 13 necessary findings of fact without influence from “extraneous considerations which in other fields  
 14 might have play in determining purely executive action.”<sup>229</sup> Picacho asserts: “Arizona courts have  
 15 long and consistently required the Commission to set rates that will produce sufficient revenue to allow  
 16 the utility to recover its operating expenses and earn a reasonable rate of return on the fair value of its  
 17 property devoted to public service.”<sup>230</sup> Picacho concedes that the Commission has a duty to protect the  
 18 public interest, but argues that the Commission’s duty is to prevent “excessive and discriminatory rates  
 19 and inferior service,” not to reduce rates artificially so that a public service corporation is not allowed  
 20 a reasonable return.<sup>231</sup> Picacho further cites the U.S. Supreme Court for the edict that “[r]ates which  
 21 are not sufficient to yield a reasonable return on the value of the property used at the time it is being  
 22 used to render the service are unjust, unreasonable and confiscatory, and their enforcement deprives  
 23

24 <sup>227</sup> Intervenor Br. at 21.

25 <sup>228</sup> Intervenor Br. at 21. To support this, Intervenors cite to a newspaper article concerning the AIC rate case that was not  
 made a part of the evidentiary record in this matter. The Commission finds this argument problematic, as it suggests  
 gamesmanship that does not befit a governmental entity with an obligation to fulfill constitutional obligations.

26 <sup>229</sup> Picacho Br. at 2-3 (quoting *State ex rel. Corbin v. Arizona Corp. Comm’n*, 143 Ariz. 219, 223-224 (App. 1984)).

27 <sup>230</sup> Picacho Br. at 4 (citing *US West Commc’ns, Inc. v. Ariz. Corp. Comm’n*, 201 Ariz. 242, 246 (2001) (stating that “a line  
 of cases nearly as old as the state itself has sustained the traditional formulaic approach” to setting rates)).

28 <sup>231</sup> Picacho Br. at 4 (quoting *SW Gas Corp. v. Ariz. Corp. Comm’n*, 169 Ariz. 279, 286 (App. 1991) (quoting *Petrolane-  
 Ariz. Gas Serv. v. Ariz. Corp. Comm’n*, 119 Ariz. 257, 259 (1978)) and citing *Scates v. Ariz. Corp. Comm’n*, 118 Ariz. 531,  
 534 (App. 1978) (“*Scates*”)).

1 the public utility company of its property in violation of the Fourteenth Amendment.”<sup>232</sup> Picacho adds  
 2 that there are no claims Picacho has been providing inferior service and that although the increases are  
 3 high, they are not more than Picacho requires to recover its costs of service plus a fair return.<sup>233</sup> Picacho  
 4 asserts that what Mr. Salmon is asking the Commission to do is authorize rates that are lower than just  
 5 and reasonable rates.<sup>234</sup>

6 Picacho further points out that the AIC rate case decision cited with approval by Mr. Salmon,  
 7 which involved ratemaking based on a cash flow analysis rather than a rate of return on rate base and  
 8 included a phase-in, is inapt because AIC voluntarily agreed to forgo rate-of-return ratemaking and to  
 9 a phase-in of rates without recovery of its lost revenues and because “there were serious concerns about  
 10 affordability” in the AIC case, which are not present here.<sup>235</sup> Picacho asserts that the testimony on the  
 11 demographics of Robson Ranch indicates that the average household income is \$125,000, and public  
 12 comments indicate that many residents of Robson Ranch reside elsewhere in the summer months (*i.e.*,  
 13 have second homes), whereas the Decision in the AIC rate case established that the median annual  
 14 income in Ajo was approximately \$33,000 and that approximately 30% of households in Ajo earned  
 15 below the federal poverty level of approximately \$25,000.<sup>236</sup>

16 Additionally, Picacho argues that, while the Commission’s ratemaking powers are indisputably  
 17 broad, it would be unlawful for the Commission to set rates without considering and using a public  
 18 service corporation’s rate base, if that rate base is determinable, which those for the Picacho utilities  
 19 are.<sup>237</sup> Thus, Picacho concludes, the Commission may not adopt Mr. Salmon’s position that the  
 20 Picacho utilities’ revenue requirements and rates should be set based on something other than their  
 21

22 \_\_\_\_\_  
 23 <sup>232</sup> Picacho Br. at 4 (quoting *Bluefield Co. v. Pub. Serv. Comm’n*, 262 U.S. 679, 690 (1923)).

24 <sup>233</sup> Picacho Br. at 5 (citing *Simms v. Round Valley Light & Power Co.*, 80 Ariz. 145, 149 (1956) (“*Simms*”) (quoting *Smyth*  
 25 *v. Ames*, 169 U.S. 466 (1898))).

26 <sup>234</sup> Picacho Br. at 5. We note that Picacho and Staff referred to Mr. Salmon rather than the Intervenor in their briefs because  
 27 the briefs were all filed on the same date and thus neither Picacho nor Staff knew that Mr. McBeth would join Mr. Salmon  
 28 on brief.

<sup>235</sup> Picacho Br. at 18 (citing Decision No. 77287 (July 19, 2019) at 9, 14-15, 21). Official notice of Decision No. 77287  
 was taken during the hearing at Picacho’s request.

<sup>236</sup> Picacho Br. at 17 (citing August 25, 2025, Public Comment Tr. at 18; Decision No. 77287 at 9). We note that public  
 comment is not evidence but agree that a commenter stated on August 25, 2025, that the public comment meeting date was  
 “very inconvenient” to Robson Ranch residents because “50 percent or more of our residents are snowbirds.” (August 25,  
 2025, Public Comment Tr. at 18.) Official notice is taken of the August 25, 2025, Public Comment Transcript.

<sup>237</sup> Picacho Br. at 18-19 (citing *Scates*, 118 Ariz. at 534).

1 operating expenses and a reasonable return on their rate bases.<sup>238</sup>

2 Staff states that because Mr. Salmon asks the Commission to lower the revenue requirement to  
 3 reduce rates “but provided no evidence or argument as to how that should be accomplished,” did not  
 4 oppose any specific element used to determine the revenue requirement, and did not provide any  
 5 evidence to support such a reduction, Picacho and Staff’s positions should be adopted.<sup>239</sup> Staff states  
 6 that because “any Commission decision must be supported by ‘substantial evidence,’” and Mr. Salmon  
 7 failed to introduce any evidence to support his position, the evidentiary record does not support  
 8 Commission adoption of Mr. Salmon’s position.<sup>240</sup> Staff further asserts that “the Commission has a  
 9 duty to set rates that are reasonable but that are also sufficient to permit a utility to continue to provide  
 10 service and to earn a return of and on its investment” and that are “based on facts and evidence.”<sup>241</sup>  
 11 According to Staff, “there is no evidence that any of the Intervenors’ proposals would enable the  
 12 Commission to carry out its duty.”<sup>242</sup>

## 13 2. Intervenors

14 The Intervenors assert that they prefer an operating margin approach to the traditional rate base  
 15 and rate-of-return method for establishing Picacho’s revenue requirements because the operating  
 16 margin approach is straightforward and has been used when the Commission is concerned that  
 17 ratepayers may be harmed by rate increases that would otherwise be too high.<sup>243</sup> The Intervenors  
 18 suggest that the Commission should remand this matter to the Hearing Division for additional evidence  
 19 to be gathered on “the appropriate operating margin to set in this instance.”<sup>244</sup> The Intervenors state:  
 20 “While this may seem like an extreme remedy, the Commission should keep in mind the numerous  
 21 self-serving and deliberate decisions of the utility that form the basis of this proposed dramatic rate  
 22 increase.”<sup>245</sup>

23  
 24  
 25 <sup>238</sup> See Picacho Br. at 18-19.

<sup>239</sup> See Staff Br. at 3-4.

26 <sup>240</sup> Staff Br. at 17 (citing *Simms*, 80 Ariz. at 154).

<sup>241</sup> Staff Br. at 17 (citing *Simms*, 80 Ariz. at 154).

27 <sup>242</sup> Staff Br. at 17.

<sup>243</sup> Intervenor Br. at 17-18 (citing Decision No. 77287 at 12).

<sup>244</sup> Intervenor Br. at 18.

28 <sup>245</sup> Intervenor Br. at 18.

1                   **3. Resolution**

2           Article 15, § 14 of the Arizona Constitution provides: “The corporation commission shall, to  
3 aid it in the proper discharge of its duties, ascertain the fair value of the property within the state of  
4 every public service corporation doing business therein . . . .” According to the Arizona Supreme  
5 Court, this provision was included in the Arizona Constitution “[i]n order that the Corporation  
6 Commission might act intelligently, justly, and fairly between the public service corporations doing  
7 business in the state and the general public.”<sup>246</sup> The Arizona Supreme Court went on to state:

8                   The “fair value of the property” of public service corporations is the  
9 recognized basis upon which rates and charges for services rendered should  
10 be made, and it is made the duty of the Commission to ascertain such value,  
not for legislative use, but for its own use, in arriving at just and reasonable  
rates and charges . . . .<sup>247</sup>

11 The Court further stated: “All persons agree that the capital invested in public service should receive  
12 reasonable remuneration, and that the services rendered should be efficient and practicable and to all  
13 patrons upon equal terms and conditions.”<sup>248</sup>

14           In more recent years, the Arizona Supreme Court has clarified that the Commission is obligated  
15 to determine the fair value of a public service corporation’s property used in the provision of service  
16 as a precursor to setting just and reasonable rates in all cases<sup>249</sup> and generally obligated to use its  
17 determination of fair value as the basis for establishing the revenue requirement and determining the  
18 just and reasonable rates for a public service corporation.<sup>250</sup> The Arizona Supreme Court  
19 acknowledged that the “‘traditional approach’ is not constitutionally required in all cases,”<sup>251</sup> but stated:

20                   [W]e have repeatedly required its use in ratemaking for private, for-profit  
21 monopolies . . . . Similarly, we have held that, with some limited  
22 exceptions, fair value must be determined when rates are set. As a result,  
the Commission is obligated to base rates on the current fair value of the  
23 utility’s property.<sup>252</sup>

24 <sup>246</sup> *State v. Tucson Gas, Elect. Light & Power Co.*, 15 Ariz. 294, 303 (1914).

<sup>247</sup> 15 Ariz. at 303.

<sup>248</sup> 15 Ariz. at 307-308.

<sup>249</sup> *RUCO v. Ariz. Corp. Comm’n*, 240 Ariz. 108, 109 (2016) (“*RUCO*”).

<sup>250</sup> *RUCO*, 240 Ariz. at 112 (citing *Ariz. Corp. Comm’n v. Ariz. Water Co.*, 85 Ariz. 198, 202 (1959)) (“*Ariz. Water*”).

<sup>251</sup> *RUCO*, 240 Ariz. at 112 (citing *US West Commc’ns, Inc. v. Ariz. Corp. Comm’n*, 201 Ariz. 242, 246 (2001) (“*US West*”) (allowing the Commission not “to rigidly link the fair value determination to the establishment of rates” for a utility in a competitive industry)).

<sup>252</sup> *RUCO*, 240 Ariz. at 112 (citations omitted) (citing *Simms*, 80 Ariz. at 151); *US West*, 201 Ariz. at 246; *Ariz. Water*, 85 Ariz. at 201-202).

1 While the AIC rate case did not use this “traditional approach,” the Commission obtained AIC’s  
 2 consent to have its revenue requirement established using a different method. A party to a case  
 3 generally may waive its legal rights, including constitutional rights, as it sees fit.<sup>253</sup> Unlike AIC in the  
 4 AIC rate case, Picacho in this matter has expressly refused to have its revenue requirement and rates  
 5 established using an approach other than the “traditional approach” of rate-of-return ratemaking. The  
 6 Picacho utilities are for-profit public service corporations, with discernible positive rate bases, and  
 7 Arizona caselaw establishes that the Commission is obligated to use rate-of-return ratemaking when  
 8 setting the rates for for-profit public service corporations. The Commission must respect Picacho’s  
 9 rights and its own legal obligations in this regard. The Intervenor’s request for Picacho’s revenue  
 10 requirements to be set using an alternate method must be denied.

## 11 **B. Capital Structure**

### 12 **1. Picacho & Staff**

13 Picacho argues that Mr. Salmon’s proposal for the Commission to use an imputed capital  
 14 structure with 50% equity and 50% debt should not be adopted because he has offered no basis for  
 15 adoption of such a capital structure other than that it would result in lower rates, was unable to explain  
 16 whether he was seeking a 50/50 capital structure or some other hypothetical capital structure, is  
 17 unqualified to make recommendations regarding the appropriate capital structure for an Arizona public  
 18 service corporation, and was unable to quantify the extent to which the revenue requirement for each  
 19 Picacho utility would be reduced if a 50/50 capital structure were adopted for each.<sup>254</sup> As Picacho puts  
 20 it, “Mr. Salmon was seeking relief he did not evaluate and could not explain.”<sup>255</sup>

21 Picacho argues that the two qualified cost-of-capital experts in the case, on the other hand,  
 22 agreed that the Commission should not use an imputed capital structure containing more than 30%

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24 <sup>253</sup> See, e.g., *Powell v. U.S. Sec. & Exchange Comm’n*, 149 F.4<sup>th</sup> 1029, 1035, 1038 (9<sup>th</sup> Cir. App. 2025) (“*Powell*”)  
 25 (longstanding precedent confirms that a defendant in a civil case can waive constitutional rights as part of a settlement just  
 26 as a criminal defendant can waive constitutional rights as part of a plea bargain; the law permits voluntary relinquishment  
 27 of constitutional rights as long as appropriate safeguards are attached). In *Powell*, the 9<sup>th</sup> Circuit stated: “In proper  
 28 circumstances, rights, including constitutional rights, can be waived. There is a ‘background presumption that legal rights  
 generally . . . are subject to waiver by voluntary agreement of the parties.” (*Powell*, 149 F.4<sup>th</sup> at 1038 (quoting *United States*  
*v. Mezzanatto*, 513 U.S. 196, 203 (1995).)

<sup>254</sup> Picacho Br. at 15-16 (citing Tr. at 400, 403-404, 445-446; Ex. RS-2 at 7-8).

<sup>255</sup> Picacho Br. at 16.

1 debt.<sup>256</sup> Picacho points to Mr. Parcell's testimony that transitioning from a capital structure with 100%  
 2 equity to a capital structure with 70% equity is a big step, and such changes should be made  
 3 gradually.<sup>257</sup> Picacho also points to Mr. Bourassa's testimony to the effect that when a reasonably  
 4 balanced actual capital structure is available, it is not good ratemaking to use a hypothetical capital  
 5 structure and that a goal of reducing rates is not a good basis for selecting a capital structure.<sup>258</sup>

6 Thus, Picacho argues, the Commission should approve the proposed capital structure of 70%  
 7 equity and 30% debt for both Picacho utilities.<sup>259</sup> But, Picacho argues, both experts and Mr. Salmon  
 8 agreed that if Picacho's revenue requirement is set using a capital structure with a higher debt ratio,  
 9 Picacho should be authorized to borrow up to that total amount of debt so that the capital structure  
 10 adopted for ratemaking can be obtained.<sup>260</sup>

11 Staff asserts that the capital structure of 70% equity and 30% debt is appropriate for both  
 12 Picacho utilities under the circumstances because neither currently has any debt, both were acquired  
 13 by JW Water in late 2024, and "it is not unusual for the Commission to gradually revise a utility's  
 14 capital structure."<sup>261</sup> Staff acknowledges that the capital structure of 70% equity and 30% debt "is less  
 15 balanced than is generally recommended by the Commission," but asserts that the reduction from 100%  
 16 equity to 70% equity is "significant . . . and an appropriate first step toward a more balanced capital  
 17 structure."<sup>262</sup> Staff further observes that "a 50/50 capital structure may be too onerous" for Picacho.<sup>263</sup>

## 18 2. Intervenor

19 The Intervenor argues that the Commission may use an imputed, or hypothetical, capital  
 20 structure to set rates and state: "The Commission uses an imputed capital structure when an unbalanced  
 21 capital structure has the potential to either burden ratepayers or hamper the operation of the utility."<sup>264</sup>

22 <sup>256</sup> Picacho Br. at 16.

23 <sup>257</sup> Picacho Br. at 16 (citing Tr. at 259-260, 275-276, 277-278, 289-290, 293-294).

24 <sup>258</sup> Picacho Br. at 16 (citing Tr. at 239-240, 375-377).

25 <sup>259</sup> Picacho Br. at 16.

26 <sup>260</sup> Picacho Br. at 16 (citing Tr. at 403-404, 375-377, 276-277, 308-309, 310).

27 <sup>261</sup> Staff Br. at 12-13 (citing Ex. S-4 at 6). We note that the Commission does not revise utility's capital structures, although  
 28 the Commission may order a utility to move toward a more balanced capital structure or may use an imputed capital structure  
 when setting rates due to the lack of balance in a utility's actual capital structure.

<sup>262</sup> Staff Br. at 13.

<sup>263</sup> Staff Br. at 13. Staff does not cite to any portion of the evidentiary record for this assertion.

<sup>264</sup> Intervenor Br. at 18 (citing Staff Reply Brief in Docket No. W-02113A-13-0118, Chaparral City Water Company rate  
 case). The brief cited by Intervenor was not offered into evidence and thus is not part of the evidentiary record for this  
 matter. It is a document prepared by Staff as an advocate in the Chaparral City Water Company rate case rather than a

1 The Intervenors assert that “Staff has also previously advocated for use of an imputed capital structure  
 2 to ‘equalize the benefits and burdens of the equity ratio between the [c]ompany and its ratepayers, who  
 3 have no control over what that equity ratio is.’”<sup>265</sup> The Intervenors urge the Commission to approve  
 4 rates for the Picacho utilities based on an imputed capital structure containing 50% equity and 50%  
 5 debt.<sup>266</sup>

6 The Intervenors point to Mr. Parcell’s testimony agreeing that the Commission generally favors  
 7 an equity ratio of between 40% and 60%, that he personally would prefer to see such a range for the  
 8 Picacho utilities, and that the Commission recently approved an equity ratio in the mid-50% range for  
 9 Southwest Gas in its rate case.<sup>267</sup> The Intervenors also argue that Commissions in other jurisdictions  
 10 use imputed capital structures “when ratepayers may be harmed by setting rates using the utility’s  
 11 actual capital structure” and quote a Missouri Public Service Commission Report and Order stating  
 12 that it would not use a utility’s equity-heavy capital structure to set rates and would instead use a

13 \_\_\_\_\_  
 14 Commission decision and thus does not establish the Commission’s position on any issue. In Decision No. 74568 (June  
 15 20, 2014), of which official notice is taken, issued in the same Chaparral City Water Company rate case, the Commission  
 16 did not adopt a hypothetical capital structure, although urged to do so by Staff and RUCO, instead stating the following:

17 We share the concerns raised by RUCO and Staff in regard to the common equity  
 18 ratio of CCWC in comparison to those of its parent companies EPCOR and EPCOR Water  
 19 Arizona over the five year period leading to and including the test year. The comparison  
 20 as set forth in the testimony of RUCO’s witness shows a very sharp contrast in equity  
 21 ratios.

22 We are cognizant, however, that as CCWC and WUAA point out, in the last three  
 23 CCWC proceedings before us, we have not ordered CCWC to take action to address the  
 24 issue of its unbalanced capital structure, or indicated an intent to consider employing a  
 25 hypothetical capital structure in future proceedings.

26 On a going forward basis, however, CCWC should consider making plans to  
 27 rectify the imbalance in its capital structure relative to the capital structures of its parent  
 28 companies. We will order CCWC to file in this docket, within 120 days, a plan including  
 analysis on how it might achieve a more balanced, reasonable, and appropriate capital  
 structure. In future ratesetting proceedings, regardless of whether CCWC has chosen to  
 rebalance its capital structure, CCWC can expect that a hypothetical capital structure will  
 be considered.

We make no finding with respect to the double leverage issue raised in this  
 proceeding. However, we agree with Staff that the existence of double leveraging is not a  
 prerequisite for employing a hypothetical capital structure in a cost of capital  
 determination. Further, we note that a hypothetical capital structure, as the name indicates,  
 does not require a utility to actually change its capital structure, as CCWC and WUAA  
 seem to imply.

(Decision No. 74568 at 34-35.)

<sup>265</sup> Intervenor Br. at 18 (quoting Decision No. 74568 at 32). As noted in the prior footnote, the Commission did not adopt  
 Staff’s position.

<sup>266</sup> Intervenor Br. at 19.

<sup>267</sup> Intervenor Br. at 19 (citing Tr. at 259, 273-274, 278). Intervenors did not mention Mr. Parcell’s testimony that Southwest  
 Gas’s equity ratio was in the mid-50% range and that RUCO had proposed a lower equity ratio that the Commission declined  
 to adopt. (See Tr. at 273-274.)

1 hypothetical capital structure because its stockholders, rather than ratepayers, should bear the burden  
 2 of utility management's decision to have a "skewed capital structure."<sup>268</sup> The Intervenor's argue that  
 3 courts in other states have also upheld the use of imputed capital structures to protect ratepayers, citing  
 4 court cases in New Mexico, Missouri, and Idaho.<sup>269</sup>

### 5 3. Resolution

6 Both cost-of-capital experts in this matter support use of a capital structure that includes 70%  
 7 equity for the Picacho utilities, which is consistent with the level of debt that Picacho asserts it intends  
 8 to obtain and maintain. Mr. Parcell testified that Picacho's proposed capital structure was a step in the  
 9 right direction and a good start for Picacho, which currently has a capital structure of 100% equity,  
 10 even though the 70/30 capital structure does not fall within the Commission's frequently stated  
 11 preference for a balanced capital structure to have between 40% and 60% equity and debt.<sup>270</sup> Mr.  
 12 Parcell clarified that his 70/30 capital structure recommendation "is not based upon an analysis of what  
 13 it should be in the long term, it's based upon an understanding and recognition that the companies are  
 14 making an effort to go from 100 percent equity down to a more balanced capital structure."<sup>271</sup> Mr.  
 15 Parcell opined that use of a hypothetical capital structure would be "encouragement" for a utility to  
 16 obtain the favored capital structure because it "tell[s] the company that's where you need to be to get  
 17 the rates to set in a way that suits – that favors you."<sup>272</sup> Mr. Parcell also agreed that under most  
 18 circumstances, if the Commission uses a hypothetical capital structure containing 40% debt, the  
 19 company should also be authorized to borrow up to 40% debt and that it was probable that a parent  
 20 company that could provide 30% debt could also provide 40% debt.<sup>273</sup> Additionally, Mr. Parcell  
 21 acknowledged that the proxy group utilities' historic and estimated capital structures have equity levels  
 22

23 <sup>268</sup> Intervenor Br. at 19 (quoting a Missouri Public Service Commission Report and Order issued in a docket for St. Joseph  
 Light & Power Company, Case No. ER-93-41 at 5 (1993)).

24 <sup>269</sup> Intervenor Br. at 19-20 (citing *In re Zia Nat. Gas Co.*, 998 P.2d 564, 568 (N.M. 2000); *State ex rel. Missouri Gas Energy*  
 25 *v. Pub. Serv. Comm'n*, 186 S.W.3d 376, 389-390 (Mo. Ct. App. 2005); *Application of Citizens Utilities Co.*, 739 P.2d 360,  
 362-363 (Idaho 1987)).

26 <sup>270</sup> Tr. at 260, 274, 276, 278. Mr. Parcell testified that he would prefer to see Picacho continue moving toward a lower  
 equity ratio capital structure. (Tr. at 278.) Mr. Parcell also testified that he is "a cost of capital person," whose job is to  
 27 measure the current cost of capital in terms of what it costs to attract capital from an economic standpoint, while the issue  
 of what is fair to ratepayers is a policy issue. (Tr. at 280.)

27 <sup>271</sup> Tr. at 289.

27 <sup>272</sup> Tr. at 307.

28 <sup>273</sup> Tr. at 308-309, 310, 311.

1 between approximately 50% and 56% and that his COE analyses were based on those capital structures,  
2 though he determined that it was not necessary to make an adjustment to his COE analyses based on  
3 Picacho's higher equity capital structure because Picacho was "doing the right thing" by acquiring  
4 debt.<sup>274</sup> He also agreed, however, that sometimes it may be appropriate to adjust a return on equity or  
5 a capital structure for policy or political reasons and that if the Commission were to set rates based on  
6 a higher percentage of debt in the capital structure, it would be appropriate for the company also to be  
7 authorized to borrow up to that amount of debt.<sup>275</sup>

8 Mr. Bourassa stated that a capital structure with 30% debt is "perfectly acceptable and  
9 reasonable" for utilities the size of the Picacho utilities.<sup>276</sup> Mr. Bourassa also testified that it would be  
10 appropriate for Picacho, on a going-forward basis, to use a balanced mixture of equity, debt, and AIAC  
11 and CIAC to fund capital investments.<sup>277</sup> Mr. Bourassa expressly recommended against the  
12 Commission setting the revenue requirement and rates for Picacho based on an imputed capital  
13 structure that did not match the financing authorization granted to Picacho because 10% of Picacho's  
14 equity would be turned into low-cost debt, which he would consider to be a "taking."<sup>278</sup> Mr. Bourassa  
15 clarified that this harm to the Picacho utilities would occur if they were authorized to borrow an amount  
16 of debt lower than the level of debt imputed for ratemaking (*e.g.*, authorized to borrow up to 30% debt  
17 but having their revenue requirements and rates set using an imputed 40% debt ratio) due to the  
18 "fictitious interest rate deduction for the income taxes computed for rates because of the interest  
19 synchronization."<sup>279</sup>

20 Ms. Schwartz stated that a capital structure that is balanced for a larger utility might not be  
21 appropriate for a smaller utility and that she considers the Picacho utilities to be "small utilities"  
22 because she looks at them individually rather than as entities that are owned by a holding company and  
23 then ultimately by another parent company.<sup>280</sup> She also testified that JW Water has not determined  
24 what capital structure it may propose in the future but has determined that it intends to propose

25 <sup>274</sup> Tr. at 288, 290-294.

26 <sup>275</sup> Tr. at 303, 310-311.

27 <sup>276</sup> Tr. at 235.

28 <sup>277</sup> Tr. at 353.

<sup>278</sup> Tr. at 375-376. We note that Mr. Bourassa is not an attorney.

<sup>279</sup> See Tr. at 375-377.

<sup>280</sup> Tr. at 106-107.

1 consolidation of all of its systems into a single water company and a single sewer company.<sup>281</sup>

2 Although the Commission has expressed a preference for using a public service corporation's  
3 actual capital structure when setting rates, it has used a hypothetical or imputed capital structure for  
4 ratemaking when a public service corporation's actual capital structure is inappropriately imbalanced,  
5 whether that imbalance is due to excessive equity or excessive debt.<sup>282</sup> In this matter, the Picacho  
6 utilities' actual capital structures of 100% equity are inappropriately imbalanced, making it appropriate  
7 to use a hypothetical capital structure that is balanced. Picacho and Staff agree on a hypothetical capital  
8 structure of 70% equity and 30% debt (hypothetical because the Picacho utilities' actual capital  
9 structures will continue to be 100% equity until the water financing application and sewer financing  
10 application are approved and debt is obtained). While the 70% equity ratio agreed upon by Picacho  
11 and Staff represents a vast improvement in the capital structure from 100% equity, the Commission  
12 prefers to see a capital structure that contains no more than 60% of either equity or debt, as recently  
13 reiterated by the Commission in Decision No. 81415 (July 22, 2025), in which the Commission rejected  
14 an intervenor-proposed hypothetical capital structure with 70% debt and 30% equity as  
15 "inappropriately unbalanced," instead approving an actual capital structure with 54.72% equity.<sup>283</sup> The  
16 Intervenor's 50/50 capital structure would literally be balanced, but it would also represent a degree of  
17 leverage that may not be attainable by Picacho, based on the evidence herein, which indicates that  
18 attaining 40% debt rather than 30% debt is likely possible.

19 Mr. Parcell determined that JW Water's capital structure has had the following equity ratios in  
20 recent years.<sup>284</sup>

2020	2021	2022	2023	2024
78.56%	85.36%	75.20%	77.82%	96.60%

23 <sup>281</sup> Tr. at 107-108.

24 <sup>282</sup> See, e.g., Decision No. 58377 (August 12, 1993) (adopting hypothetical capital structure of 40% equity and 60% debt  
25 for Southwest Gas Co. because its capital structure was excessively leveraged); Decision No. 70624 (November 19, 2008)  
26 (adopting hypothetical capital structure of 60% equity and 40% debt for Gold Canyon Sewer Co. because actual capital  
27 structure of 100% equity was not in line with industry averages); Decision No. 77269 (June 27, 2019) (adopting hypothetical  
28 capital structure of 60% equity and 40% debt for Farmers Water Co. because actual capital structure of 100% equity was  
overly leveraged as compared to proxy group).

<sup>283</sup> Decision No. 81415 at 92. Official notice is taken of this decision.

<sup>284</sup> Ex. S-4 at 17.

1 JW Water's currently equity-heavy capital structure suggests that JW Water should be well poised to  
 2 provide Picacho debt beyond the 30% originally contemplated in the financing applications, should  
 3 that be warranted.

4 Mr. Parcell reported that the proxy group companies have had the following equity ratios in  
 5 recent years and have the following projected equity ratios:<sup>285</sup>

6 Year/s	2020	2021	2022	2023	2024	2025	2026	2028- 2030
7 Range %	40.9-55.7	40.9-54.4	41.3-60.1	44.7-57.5	44.5-59.7	45.5-62.5	44.0-65.0	43.5-66.0
8 Average %	48.5	48.4	50.5	49.2	50.7	52.3	53.2	54.8

9 This data shows not only that the proxy group companies on average have maintained equity ratios that  
 10 are within the range that the Commission considers to be balanced but also a trend toward progressively  
 11 higher average equity ratios, with those average equity ratios exceeding 50% and with the range of  
 12 actual equity ratios for the individual companies never reaching as high as 70%.

13 Mr. Parcell also reported the following current equity ratios (actual or hypothetical used or  
 14 proposed to be used for ratemaking) for other Arizona water utilities currently or recently involved in  
 15 rate proceedings:<sup>286</sup>

16 Utility	Docket No.	Common Equity %	Actual or Hypothetical
17 Arizona Water – Northern Division	W-01145A-24-0117	59.53%	Actual
18 EPCOR Water	WS-01303A-24-0130	54.72%	Actual
Global Water – Farmers' Water	W-01654A-24-0108	55.00%	Hypothetical
19 Liberty Utilities	W-02074A-23-0337 et al.	54.00%	Hypothetical

20 This data likewise shows that Arizona utilities routinely either maintain, or accept the appropriateness  
 21 of ratemaking using, equity ratios that are in the mid-to-upper 50% range.<sup>287</sup>

22 While the Commission is mindful that the revenue increases proposed by both Picacho utilities  
 23 are high, due largely to neither Picacho utility having filed for a rate case previously in spite of the  
 24 extended periods during which they have held their CC&Ns and been in operation, the Commission is  
 25 obligated to make its decisions based on evidence rather than a desire for specific outcomes. The  
 26 evidence in this matter does not support adoption of the 50/50 capital structure for which the

27 <sup>285</sup> See Ex. S-12 (citing Value Line Investment Survey (October 3, 2025)).

28 <sup>286</sup> Ex. S-4 at 18

<sup>287</sup> Ex. S-4 at 18.

1 Intervenor advocates but does not support adoption of a capital structure with 60% equity and 40% debt.  
 2 A 60/40 capital structure falls within the Commission's range for a balanced capital structure, is more  
 3 consistent with the capital structures of both the proxy group companies and other Arizona water  
 4 utilities, and helps to ensure that the COE analyses performed using the proxy group companies are  
 5 appropriate for estimating the COE for the Picacho utilities. Based on the evidence of adverse  
 6 consequences that could result if the hypothetical capital structure used for ratemaking does not match  
 7 the financing authorization granted by the Commission, as discussed by Mr. Bourassa, the Commission  
 8 further finds that it is appropriate for the Commission to approve financing authorization for each of  
 9 the Picacho utilities that will allow them to obtain and maintain 60/40 capital structures in reality.

### 10 C. Imputed CIAC and AIAC

#### 11 1. Picacho & Staff

12 Picacho argues that although Mr. Salmon failed to present any evidence on rate base, or to rebut  
 13 the substantial evidence on rate base presented by Picacho and Staff, he appeals to the Commission to  
 14 reduce the rate bases of the Picacho utilities.<sup>288</sup> Picacho points out that Mr. Salmon attempted to  
 15 establish that the Picacho utilities' rate bases would be lower today if the Robson entities had been  
 16 required to fund more plant as a landowner/developer (*i.e.*, through CIAC or AIAC), but argues that  
 17 Mr. Salmon could not demonstrate either that the rate bases would be lower today or how much lower  
 18 if they were, instead relying upon "pure conjecture regarding how much developers actually did or  
 19 might have paid, how that funding would have been booked, and how much would have already been  
 20 refunded."<sup>289</sup> Picacho argues that "speculation is not substantial evidence."<sup>290</sup>

21 Further, Picacho argues that the Picacho utilities have done nothing wrong because there is no  
 22 legal requirement for developers to make advances toward the cost of plant to serve new development  
 23 or for a public service corporation to have a hook-up fee ("HUF") tariff that treats plant funded by  
 24 developers as CIAC.<sup>291</sup> Picacho also points out that the Commission was aware of the manner in which

25  
 26  
 27 <sup>288</sup> Picacho Br. at 13 (citing Ex. RS-2 at 9; Tr. at 400-401, 454-456).

<sup>289</sup> Picacho Br. at 14 (citing Tr. at 242-243, 458-460, 493-495, 514-516).

<sup>290</sup> Picacho Br. at 14.

28 <sup>291</sup> Picacho Br. at 15 (citing Tr. at 356, 500; Ex. A-23 at 10).

1 the Robson entities funded plant<sup>292</sup> and on at least two occasions gave it “tacit approval.”<sup>293</sup>

2 Staff acknowledges that Picacho, when owned by the Robson entities, did not enter into Main  
3 Extension Agreements (“MXAs”) to fund plant for new development, which would have resulted in  
4 AIAC, but asserts that Picacho did nothing wrong by not using MXAs.<sup>294</sup> Staff further observes that it  
5 was not the current ownership of Picacho that made the decision not to use MXAs.<sup>295</sup> Nonetheless,  
6 Staff observes that it has reduced the rate bases for both Picacho utilities due to its adjustments made  
7 for PHFFU.<sup>296</sup> Additionally, Staff notes that it imputed CIAC to Picacho Sewer in the amount of  
8 \$6,103 for the TY because Picacho Sewer was unable to provide invoices for \$61,031.10 of PIS.<sup>297</sup>

## 9 2. Intervenors

10 The Intervenors assert that there is an “inherent conflict of interest . . . at the heart of this case”  
11 because Picacho’s prior owner was the developer and homebuilder for Robson Ranch.<sup>298</sup> The  
12 Intervenors criticize the Robson entities for making “ratepayers subsidize growth by failing to use  
13 AIAC, CIAC, or HUFs” and assert that they used “ratepayer money rather than homebuilder money”  
14 to pay for growth.<sup>299</sup> The Intervenors argue that the Commission now has the opportunity to scrutinize  
15 this practice and that “it would clearly be unfair for the Commission to award [Picacho the] full rate  
16 increase without adjusting the request to make it fair to ratepayers by imputing some appropriate level  
17 of AIAC and CIAC.”<sup>300</sup> If the Commission does not impute AIAC and CIAC, the Intervenors assert,  
18 ratepayers will be locked into unfair rates and “made to subsidize growth,”<sup>301</sup> which would “directly  
19 contradict[] the widely accepted regulatory principle that growth should pay for growth.”<sup>302</sup>

20 \_\_\_\_\_  
21 <sup>292</sup> Under the “Robson method” of funding plant, as described by Mr. Bourassa, the shareholder or another affiliate paid for  
22 plant and then, when the utility had enough retained earnings to repay the shareholder or affiliate, the utility did so, and the  
23 shareholder or affiliate transferred ownership to the utility. (Tr. at 355-356; Ex. A-23 at 9-11.)

24 <sup>293</sup> Picacho Br. at 14-15 (citing Tr. at 355-356, 500; Ex. A-23 at 9-11). In his testimony, Mr. Bourassa cited Decision No.  
25 57645 (November 27, 1991); Decision No. 62184 (January 5, 2000); Decision No. 74564 (June 20, 2014); and Decision  
26 No. 75306 (October 27, 2015). These cases involved other utilities then owned by the Robson entities (specifically Pima  
27 Utility Company, Lago Del Oro Water Company, and Quail Creek Water Company, Inc.). (See Ex. A-23 at 9.) Official  
28 notice is taken of these decisions.

<sup>294</sup> Staff Br. at 5.

<sup>295</sup> Staff Br. at 5.

<sup>296</sup> Staff Br. at 6, 8.

<sup>297</sup> Staff Br. at 8.

<sup>298</sup> Intervenor Br. at 12.

<sup>299</sup> Intervenor Br. at 12-13.

<sup>300</sup> Intervenor Br. at 13.

<sup>301</sup> Intervenor Br. at 13.

<sup>302</sup> Intervenor Br. at 13.

1 Intervenor add that most well-managed water utilities in Arizona do not fund plant with 100% equity  
 2 and argue that the rates sought by Picacho “are higher than they otherwise would have been” had AIAC  
 3 and CIAC been used.<sup>303</sup>

### 4                   3.       **Resolution**

5           While it may seem logical that the Picacho utilities’ rate bases would be lower if the Robson  
 6 entities had funded plant using AIAC or CIAC rather than equity, there is no evidence to support that  
 7 conclusion. Rather, there is testimony to the effect that due to the time that has lapsed since the Picacho  
 8 utilities first began operations, it is not possible to know what the rate base impact would have been  
 9 for either of the Picacho utilities if some unknown amount of AIAC or CIAC had been used because  
 10 of the vintage of the plant, depreciation of PIS over time, refunding of AIAC over time, and  
 11 amortization of CIAC over time.<sup>304</sup> There is also testimony that there is not a standard level of AIAC  
 12 or CIAC funding of plant for new development.<sup>305</sup> There is also testimony that all of the plant that is  
 13 included in rate base for each of the Picacho utilities in this matter is used and useful to serve current  
 14 customers, not for growth.<sup>306</sup> Further, there is testimony that the relationship between the Robson  
 15 entities as developer and the Robson entities as owners of the Picacho utilities did not cause Staff  
 16 concerns for how the Picacho utilities were operated because it is “relatively common for developers  
 17 to create and operate the water systems in conjunction with the developments.”<sup>307</sup>

18           Intervenors have not established either that current ratepayers have been or are now being  
 19 required to subsidize growth or that the rate base for either of the Picacho utilities would be lower now  
 20 if AIAC or CIAC had been used at some level to fund plant. In fact, because the Picacho utilities have  
 21 never before had rate cases, and the plant allowed in rate base is all used to serve current customers,  
 22 this is the first time that the current Picacho customers have been asked to pay for any of the plant  
 23 added to serve them over the years since the Picacho utilities obtained their CC&Ns. Unfortunately,  
 24 that means that the increases now requested are significant.

25 \_\_\_\_\_  
 26 <sup>303</sup> Intervenor Br. at 13. Intervenors cite Mr. Aten’s testimony that utilities typically use CIAC or AIAC to fund expansion  
 in new developments. (Intervenor Br. at 13 (citing Tr. at 492).) Intervenors cite no evidence for the assertion that the rates  
 sought by Picacho are higher than they otherwise would have been had AIAC and CIAC been used.

27 <sup>304</sup> See Tr. at 357-358, 500-501, 514-516.

28 <sup>305</sup> Tr. at 495.

<sup>306</sup> Tr. at 357.

<sup>307</sup> Tr. at 497; *see also* Tr. at 516.

1 The evidence establishes that Staff has already imputed a small amount of CIAC to Picacho  
 2 Sewer, for unsupported plant, and has reduced rate base by allocating approximately \$1 million for  
 3 each of the Picacho utilities to PHFFU.<sup>308</sup> This is appropriate and based on the extent to which Staff  
 4 determined that certain PIS was attributable to growth rather than needed for service to current  
 5 customers. Picacho has accepted these reductions to rate base.

6 We are not willing to make speculative reductions to the Picacho utilities' rate bases for  
 7 unknown amounts of AIAC and/or CIAC that could have been used to fund PIS over the years and  
 8 conclude that there is insufficient evidence to establish that it would be just and reasonable to impute  
 9 any additional level of AIAC or CIAC to the Picacho utilities. However, we agree with Mr. Bourassa  
 10 and Mr. Aten that Picacho should, going forward, ensure that developers pay for some portion of plant  
 11 that is added to serve growth. Mr. Bourassa opined that it would be appropriate for Picacho, on a  
 12 going-forward basis, to use a balanced mixture of equity, debt, and AIAC and CIAC to fund capital  
 13 investments.<sup>309</sup> Mr. Bourassa also agreed that it could be appropriate for Picacho to require the Robson  
 14 entities to fund or build all of the on-site facilities for new development and to contribute a fixed  
 15 percentage of the cost of off-site facilities.<sup>310</sup> Mr. Aten likewise stated that typically a developer will  
 16 pay for all of the on-site facilities through the MXA and that a developer may also pay for a portion of  
 17 off-site facilities through a HUF, but that it is important for the owner of a utility to invest in off-site  
 18 facilities itself as well.<sup>311</sup> Mr. Aten also acknowledged that Picacho has arranged for the Robson  
 19 entities to pay a portion of off-site costs going forward.<sup>312</sup> We are encouraged that Picacho has already  
 20 begun moving toward a more appropriate method of funding plant to serve growth and encourage it to  
 21 attain a balanced mixture as referred to by Mr. Bourassa.

## 22 **D. Cost of Equity & WACC**

### 23 **I. Picacho & Staff**

24 Picacho and Staff have agreed upon a COE of 9.65% and a cost of debt of 6.29% for each of  
 25

26 <sup>308</sup> Mr. Aten testified that he hoped this resulted in an impact similar to what would have occurred if the Robson entities  
 has used MXAs rather than equity to fund extensions. (Tr. at 494.)

27 <sup>309</sup> Tr. at 353.

<sup>310</sup> Tr. at 353-354.

<sup>311</sup> Tr. at 499.

28 <sup>312</sup> Tr. at 499-500.

1 the Picacho utilities.<sup>313</sup> Picacho notes that it originally proposed a COE of 10.8% and a cost of debt of  
 2 6.49% for each of the Picacho utilities but subsequently accepted Staff’s recommended COE and cost  
 3 of debt as a concession that resulted in mitigation of the rate increases requested.<sup>314</sup> Mr. Bourassa  
 4 clarified that he adopted Mr. Parcell’s recommendations (*i.e.*, the outcome of Mr. Parcell’s analyses),  
 5 at Picacho’s direction, although he did not adopt the analyses themselves.<sup>315</sup> Mr. Parcell’s  
 6 recommended 9.65% cost of equity is based on his updated analyses using information as of the end of  
 7 October 2025 and is a reduction of 10 basis points from his originally recommended 9.75%.<sup>316</sup> Mr.  
 8 Parcell testified that interest rates and the cost of equity were trending downward as of the hearing.<sup>317</sup>

9 Mr. Parcell’s updated analyses, which were performed using the same proxy group and the  
 10 same methods used on direct, produced the following results:<sup>318</sup>

Method	Selected Range of Results	Midpoint
DCF	9.0% to 10.0%	9.5%
CAPM	9.7% to 9.80%	9.75%
CE	9.0% to 10.0%	9.5%
RP	9.5% to 10.9%	10.2%
<b>Average of Midpoints</b>		9.74%
<b>Median of Midpoints</b>		9.63%
<b>Recommendation</b>		<b>9.65%</b>

## 17 2. Intervenor

18 The Intervenor argue that the Commission regularly establishes rates using a return on equity  
 19 (“ROE”) lower than that proposed by the utility.<sup>319</sup> The Intervenor acknowledge that Picacho has  
 20 accepted Staff’s recommendation, which is lower than that in the water rate application and sewer rate  
 21 application, but state that “[t]his is hardly a concession . . . and simply represents the average and  
 22 median ROE for water utilities throughout the United States during 2022, 2023, and 2024.”<sup>320</sup> The

23 <sup>313</sup> Picacho Br. at 8; Staff Br. at 13.

24 <sup>314</sup> Picacho Br. at 6, 10.

25 <sup>315</sup> Tr. at 338, 347.

26 <sup>316</sup> Staff Br. at 13 (citing Ex. S-5 at 7).

27 <sup>317</sup> Tr. at 296-297.

28 <sup>318</sup> Ex. S-5 at 000252-000253; Ex. S-11.

<sup>319</sup> Intervenor Br. at 16.

<sup>320</sup> Intervenor Br. at 16-17 (citing Ex. S-5 at 2.) We note that Mr. Parcell reported the following average and median authorized ROEs for water utilities throughout the United States for these years, in the context of explaining why Mr. Bourassa’s proposed ROE was too high by at least 60 basis points:

1 Intervenor argue that because of the “proposed rate shock” in this matter, selecting a lower ROE “will  
 2 help make the Commission’s decision more fair to ratepayers as required by law.”<sup>321</sup> The Intervenor  
 3 point out Mr. Parcell’s testimony agreeing that his “ROE recommendation is not the only possible just  
 4 and reasonable conclusion on ROE that can be drawn” in this matter.<sup>322</sup> They further point to Mr.  
 5 Parcell’s testimony agreeing that any figure within his range could be considered just and reasonable.<sup>323</sup>  
 6 Because Mr. Parcell’s range of results was 9.0% to 10.9%, the Intervenor argue, the evidence supports  
 7 the Commission’s selection of an ROE of 9.0%.<sup>324</sup> The Intervenor argue that because Mr. Parcell also  
 8 agreed that an ROE outside of his range could be appropriate, “the Commission is free to adjust the  
 9 ROE downward which can still result in a just and reasonable rate.”<sup>325</sup> The Intervenor support an  
 10 ROE of no more than 9.0% and urge the Commission to adopt that or a lower ROE if the Commission  
 11 does not set the revenue requirement based on operating margin.<sup>326</sup>

### 12 3. Resolution

13 The 9.65% COE agreed upon by Picacho and Staff aligns both with Mr. Parcell’s analyses and  
 14 Mr. Bourassa’s DCF results on direct, which he did not change.<sup>327</sup> The Intervenor did not provide  
 15 their own COE analysis to establish that the agreed upon 9.65% COE is excessive and not a valid  
 16 representation of the COE for the Picacho utilities. Because the 9.65% COE is supported by the  
 17 evidence offered in this matter to estimate a COE for the Picacho utilities, we conclude that it should  
 18 be adopted and will result in just and reasonable rates that will allow the Picacho utilities to continue  
 19 providing adequate service and to attract capital. Further, we find that the 6.29% cost of debt agreed  
 20 upon by Picacho and Staff is supported by the evidence and should be adopted.

Year	Average	Median
2022	9.61%	9.65%
2023	9.64%	9.57%
2024	9.56%	9.60%

21  
 22  
 23  
 24 (See Ex. S-5 at 2.)

<sup>321</sup> Intervenor Br. at 17.

<sup>322</sup> Intervenor Br. at 17 (quoting Tr. at 282).

<sup>323</sup> Intervenor Br. at 17 (quoting Tr. at 282).

<sup>324</sup> Intervenor Br. at 17 (citing Ex. S-4 at 37).

<sup>325</sup> Intervenor Br. at 17 (citing Tr. at 282-283). To clarify, Mr. Parcell stated that the Commission could reinterpret his data and go outside of his range and that he “could totally disagree with it” but that it would be based on his numbers and that the Commission also could go outside the range for non-economic reasons. (Tr. at 283.)

<sup>326</sup> Intervenor Br. at 17.

<sup>327</sup> See Ex. A-20 at 056.

1 Based on these determinations as well as our determination of the appropriate capital structure  
 2 to use for the Picacho utilities, we calculate the following WACC for the Picacho utilities and conclude  
 3 that this WACC should be used as the rate of return applied to the OCRB/FVRB to determine the  
 4 revenue requirement for each:

	<b>Percent</b>	<b>Cost</b>	<b>Weighted Cost</b>
<b>Debt</b>	40.00%	6.29%	2.52%
<b>Equity</b>	60.00%	9.65%	5.79%
<b>Total</b>	100.00%		8.31%

8 As a result of these determinations, and based on the substantial and uncontested evidence  
 9 admitted in this matter, we further conclude that the following TY results, OCRBs/FVRBs, rates of  
 10 return, and revenue increases for Picacho Water and Picacho Sewer will result in just and reasonable  
 11 rates for each:

<b>Picacho Water</b>	<b>Commission Final</b>
OCRB/FVRB	\$9,442,724
Adjusted TY Revenues	\$1,179,187
Adjusted Operating Income/Loss	(\$170,364)
Current Rate of Return	-1.80%
Required Operating Income	\$784,313
Required Rate of Return	8.31%
Operating Income Deficiency	\$954,676
GRCF	1.3512
Required Increase in Gross Revenue	\$1,289,996
% Increase in Gross Revenues	109.40%

<b>Picacho Sewer</b>	<b>Commission Final</b>
OCRB/FVRB	\$7,665,761
Adjusted TY Revenues	\$954,653
Adjusted Operating Income/Loss	(\$470,189)
Current Rate of Return	-6.13%
Required Operating Income	\$637,025
Required Rate of Return	8.31%
Operating Income Deficiency	\$1,107,214
GRCF	1.3510
Required Increase in Gross Revenue	\$1,495,866
% Increase in Gross Revenues	156.69%

27 While the Intervenors have advocated for the Commission to deny outright any rate increase to punish  
 28 Picacho for the leadership choices that were made under prior ownership, the Commission views this

1 as an abdication of its obligations in the face of substantial evidence that both of the Picacho utilities  
2 are underearning.

3 **E. Rate Phase-In**

4 **1. Picacho & Staff**

5 Picacho asserts that Mr. Salmon’s request for a phase-in of any rate increase raises both  
6 practical concerns and “significant legal questions.”<sup>328</sup> Because Picacho Sewer is currently working to  
7 construct a new WRP at a cost of approximately \$15 million, Picacho states, it expects to file another  
8 rate application in early 2027. If the Commission were to grant a phase-in of rates over a period of  
9 more than two years, Picacho states, potential new rate increases would be “pancaked” on top of the  
10 phased-in rates from this matter, which by that point would likely include recovery of lost revenues  
11 and carrying costs.<sup>329</sup> Picacho observes that “[i]t is difficult to see this result as beneficial mitigation  
12 of rate shock.”<sup>330</sup>

13 Picacho then argues that because rates are just and reasonable if they produce the amount of  
14 annual income needed for the utility to meet operating expenses and provide shareholders a return on  
15 rate base, it is not clear that the Commission has the authority to set rates that require a utility to wait  
16 for the opportunity to earn returns.<sup>331</sup> No caselaw provides such support, according to Picacho,  
17 although Picacho acknowledges that “it has long been the view at the Commission that rates can be  
18 phased in as long as the utility is eventually ‘made whole.’”<sup>332</sup> Picacho argues that the Commission’s  
19 view may not comport with Arizona law because a utility’s right to recover its operating expenses and  
20 a return on its FVRB is a “current revenue requirement,” and during the phase-in period when less is  
21 being recovered, the utility is being “required to provide service at rates that are less than just and  
22

23 <sup>328</sup> Picacho Br. at 19.

24 <sup>329</sup> Picacho Br. at 19-20 (citing LFE A-35).

25 <sup>330</sup> Picacho Br. at 20.

26 <sup>331</sup> Picacho Br. at 20 (citing *Scates*, 118 Ariz at 533-534; *US West*, 201 Ariz. at 245).

27 <sup>332</sup> Picacho Br. at 20 (citing Ex. A-29). In Exhibit A-29, the Joint Issues Matrix filed on November 17, 2025, Picacho states:

Applicants also do not dispute that the Commission can approve a rate phase in if it provides for recovery of lost revenue and a carrying cost equal to the utility’s cost of capital. The Applicants, however, do not believe a phase [in] as proposed by Mr. Salmon is prudent, reasonable or feasible on the record in these rate cases.

28 (Ex. A-29 at 003.) This statement by Picacho in the Joint Issues Matrix calls into question why Picacho’s brief presents a different argument.

1 reasonable.”<sup>333</sup>

2 Furthermore, Picacho adds, even if phase-ins are lawful if the utility is made whole, Picacho  
3 disagrees with Staff’s view that the interest rate for customer deposits (6%) can be used for the carrying  
4 cost.<sup>334</sup> Picacho argues that because a utility’s revenue requirement is established, its cost of capital is  
5 also established, and that it is the cost of capital of which the utility is deprived during the time its rates  
6 are lower due to a phase-in.<sup>335</sup> If the utility is not permitted to recover its cost of capital as the carrying  
7 cost for the forgone revenue, Picacho argues, it is never made whole.<sup>336</sup>

8 In its brief, Staff does not specifically address a phase-in, but does state that Mr. Salmon has  
9 provided no evidence to support his proposals to lower rates, that the Commission has a duty to set  
10 rates that are reasonable and sufficient to permit a utility to provide service and earn a return of and on  
11 its investment, and that the Commission’s decision must be based on facts and evidence.<sup>337</sup>

## 12 2. Intervenor

13 The Intervenor argues that the Commission commonly requires rate increases to be phased-in  
14 to allow customers to acclimate to higher rates, typically when the rate increase is large, there are few  
15 ratepayers, or the ratepayers “are particularly sensitive to rate increases.”<sup>338</sup> The Intervenor asserts that  
16 all three of these conditions exist in this matter.<sup>339</sup> The Intervenor again cite to the AIC rate case, in  
17 which the Commission approved a 10-year phase-in and prohibited recovery of lost revenues.<sup>340</sup> The  
18 Intervenor “strongly believe that a phase in that does not permit the recovery of lost revenue is  
19 appropriate and warranted.”<sup>341</sup> The Intervenor asserts that because of Picacho’s “history of making  
20 deliberate and self-serving decisions that have culminated in this massive rate increase request,” the  
21 Picacho utilities’ rate increases should be phased-in over “the longest period possible but not less than  
22 five years,” and Picacho should be prohibited from recovering the revenues lost during the phase-in

23 \_\_\_\_\_  
24 <sup>333</sup> Picacho Br. at 20 (citing *Scates*, 118 Ariz. at 534).

<sup>334</sup> Picacho Br. at 20 (citing LFE S-13).

<sup>335</sup> Picacho Br. at 20.

<sup>336</sup> Picacho Br. at 20.

<sup>337</sup> Staff Br. at 17 (citing *Simms*, 80 Ariz. at 154).

<sup>338</sup> Intervenor Br. at 20.

<sup>339</sup> Intervenor Br. at 20. Intervenor do not cite any evidence to establish that Picacho’s ratepayers “are particularly sensitive to rate increases.” (*See id.*) Additionally, the Commission notes that the meaning of this is somewhat unclear.

<sup>340</sup> Intervenor Br. at 20 (citing Decision No. 77287 at 23).

<sup>341</sup> Intervenor Br. at 20.

1 period.<sup>342</sup>

### 2 3. Resolution

3 Although neither Picacho nor Staff supports a phase-in of the revenue increase and rate  
4 increases in this matter, the ALJ required each to file, as a late-filed exhibit, schedules showing a two-  
5 year, three-year, and five-year phase-in for Picacho Sewer, assuming the revenue requirement upon  
6 which they agreed and full recovery of lost revenue and associated carrying costs. Because the typical  
7 residential customer's monthly bill impact from Picacho and Staff's joint rate design for Picacho Water  
8 is significantly lower than that for Picacho Sewer, the ALJ did not require phase-in schedules to be  
9 provided for Picacho Water.

10 Picacho's phase-in schedules, which use an 8.64% WACC to calculate the carrying costs  
11 monthly on a compounded basis throughout all phases, are attached hereto as Exhibit 1 and would  
12 result in approximately the following bill impacts for a typical residential customer:<sup>343</sup>

13 <b>2-Year Phase-In</b>	% of Revenue Increase Recovery	Surcharge	Total Bill	\$ Increase from Current Bill of \$42.00	% Increase from Current Bill
14 Months 1-8	60%	-	\$82.20	\$40.20	95.71%
15 Months 9-16	100%	-	\$109.00	\$67.00	159.52%
16 Months 17-24	100% + Surcharge	\$30.58	\$139.58	\$97.58	232.33%
17 <b>3-Year Phase-In</b>	% of Revenue Increase Recovery	Surcharge	Total Bill	\$ Increase from Current Bill of \$42.00	% Increase from Current Bill
18 Months 1-12	60%	-	\$82.20	\$40.20	95.71%
19 Months 13-24	100%	-	\$109.00	\$67.00	159.21%
20 Months 25-36	100% + Surcharge	\$32.38	\$141.38	\$99.38	236.62%
21 <b>5-Year Phase-In</b>	% of Revenue Increase Recovery	Surcharge	Total Bill	\$ Increase from Current Bill of \$42.00	% Increase from Current Bill
22 Months 1-12	60%	-	\$82.20	\$40.20	95.71%
23 Months 13-24	75%	-	\$92.25	\$50.25	119.64%
24 Months 25-36	85%	-	\$98.95	\$56.95	135.60%
25 Months 37-48	100%	-	\$109.00	\$67.00	159.21%
26 Months 49-60	100% + Surcharge	\$72.67	\$181.67	\$139.67	332.55%

27 Staff's phase-in schedules, which use 6%<sup>344</sup> to calculate carrying costs annually without

28 <sup>342</sup> Intervenor Br. at 20.

<sup>343</sup> See LFE A-35.

<sup>344</sup> The 6% is equivalent to the interest amount paid on customer deposits.

1 compounding, and calculate no carrying costs while forgone amounts are collected, are attached hereto  
 2 as Exhibit 2 and would result in approximately the following bill impacts for a typical residential  
 3 customer:<sup>345</sup>

2-Year Phase-In (2 Phases)	% of Revenue Increase Recovery	Surcharge	Total Bill	\$ Increase from Current Bill of \$42.00	% Increase from Current Bill
Months 1-12	60%	-	\$82.20	\$40.20	95.71%
Months 13-24	100% + Surcharge	\$28.90	\$137.90	\$95.90	228.33%
2-Year Phase-In (3 Phases)	% of Revenue Increase Recovery	Surcharge	Total Bill	\$ Increase from Current Bill of \$42.00	% Increase from Current Bill
Months 1-8	60%	-	\$82.20	\$40.20	95.71%
Months 9-16	100%	-	\$109.00	\$67.00	159.21%
Months 17-24	100% + Surcharge	\$29.47	\$138.47	\$96.47	229.69%
3-Year Phase-In	% of Revenue Increase Recovery	Surcharge	Total Bill	\$ Increase from Current Bill of \$42.00	% Increase from Current Bill
Months 1-12	60%	-	\$82.20	\$40.20	95.71%
Months 13-24	100%	-	\$109.00	\$67.00	159.21%
Months 25-36	100% + Surcharge	\$30.63	\$139.63	\$97.63	232.45%
5-Year Phase-In	% of Revenue Increase Recovery	Surcharge	Total Bill	\$ Increase from Current Bill of \$42.00	% Increase from Current Bill
Months 1-12	60%	-	\$82.20	\$40.20	95.71%
Months 13-24	75%	-	\$92.25	\$50.25	119.64%
Months 25-36	85%	-	\$98.95	\$56.95	135.60%
Months 37-48	100%	-	\$109.00	\$67.00	159.21%
Months 49-60	100% + Surcharge	\$66.19	\$175.19	\$133.19	317.12%

21 As the above tables make clear, Commission adoption of a phase-in scheme, regardless of how  
 22 long of a phase-in, would result in Picacho Sewer's customers paying much more during the final  
 23 phase, when lost revenues are recovered, with the highest rates occurring with the longest phase-in  
 24 schemes.<sup>346</sup> While the Intervenors may believe that this would be in their best interests, the

26 <sup>345</sup> See LFE S-13. We calculated a slightly different initial rate than Staff had included in its bill impact schedules, which  
 did not show how Staff's initial \$81.75 had been calculated. Thus, we include the rate we calculated based on the increase  
 amount from Picacho and Staff's revenue requirement ( $\$109 - \$42 = \$67$ )  $\times 60\% = \$40.20$ .  $\$42 + \$40.20 = \$82.20$ .

27 <sup>346</sup> We concede that the rates would be slightly lower, as the revenue requirement established for Picacho Sewer herein is  
 28 slightly lower than that agreed upon by Picacho and Staff, but find that the slight reduction would not change the  
 Commission's determination on this issue and need not be reflected here.

1 Commission does not agree. The Intervenors propose that the Commission deny Picacho the  
 2 opportunity to recover the lost revenues from all earlier phase-in periods, regardless of the length of  
 3 the phase-in, but the Commission agrees with Picacho that this would be unlawful once a revenue  
 4 requirement has been established in this matter if Picacho has not agreed to forgo the revenues. In the  
 5 AIC rate case, AIC agreed to forgo lost revenues, which it had the prerogative to do, and Picacho has  
 6 made it clear that it is unwilling to do so. The Commission will not engage in the gameplaying that the  
 7 Intervenors advocate so as to force Picacho's hand. Because the Commission concludes that none of  
 8 the phase-in schemes outlined by Picacho or Staff would result in just and reasonable rates for either  
 9 Picacho or its customers, it is unnecessary for the Commission to determine either an appropriate  
 10 carrying cost or an appropriate method of calculating interest for such a phase-in scheme, and the  
 11 Commission declines to do so.

12 **IX. Rates, Tariffs, Depreciation Rates, Deferred Depreciation, Rate Case Expenses, &**  
 13 **Financings**

14 **A. Picacho Water Rates & Charges**

15 The determinations made in the preceding sections herein result in the following rates and  
 16 charges for Picacho Water, which we find to be just and reasonable and in the public interest:

Picacho Water	Commission Final
<u>MONTHLY MINIMUM CHARGE:</u>	
5/8" x 3/4" Meter	\$ 24.75
3/4" Meter	37.12
1" Meter	61.86
1 1/2" Meter	123.73
2" Meter	197.96
3" Meter	395.52
4" Meter	618.63
6" Meter	1,237.25
8" Meter	1,979.60
10" Meter	2,845.78
12" Meter	5,321.25
8" Lake/Irrigation	1,979.60
12" Lake/Golf Course Irrigation	5,321.25
Construction – Hydrant	395.52

<u>COMMODITY RATES:</u>	
(Per 1,000 gallons)	
5/8" x 3/4" Meter and 3/4" Meter – Residential	
0 to 4,000 gallons	\$ 2.09
4,001 to 10,000 gallons	3.74
Over 10,000 gallons	7.36
5/8" x 3/4" Meter and 3/4" Meter – Commercial, Irrigation	
0 to 10,000 gallons	3.74
Over 10,000 gallons	7.36
1" Meter – Residential, Commercial, Irrigation	
0 to 25,000 gallons	3.74
Over 25,000 gallons	7.36
1 1/2" Meter – Residential, Commercial, Irrigation	
0 to 50,000 gallons	3.74
Over 50,000 gallons	7.36
2" Meter – Residential, Commercial, Irrigation	
0 to 80,000 gallons	3.74
Over 80,000 gallons	7.36
3" Meter – Residential, Commercial, Irrigation	
0 to 160,000 gallons	3.74
Over 160,000 gallons	7.36
4" Meter – Residential, Commercial, Irrigation	
0 to 250,000 gallons	3.74
Over 250,000 gallons	7.36
6" Meter – Residential, Commercial, Irrigation	
0 to 500,000 gallons	3.74
Over 500,000 gallons	7.36
8" Meter – Residential, Commercial, Irrigation	

0 to 800,000 gallons	3.74
Over 800,000 gallons	7.36
10" Meter – Residential, Commercial, Irrigation	
0 to 1,150,000 gallons	3.74
Over 1,150,000 gallons	7.36
12" Meter – Residential, Commercial, Irrigation	
0 to 2,150,000 gallons	3.74
Over 2,150,000 gallons	7.36
8" Meter – Lake/Irrigation – Non-Potable Water <sup>(1)</sup>	
All gallons	3.74
12" Meter – Lake/Golf Course Irrigation – Non-Potable Water <sup>(1)</sup>	
All gallons	3.74
Construction – Hydrant	
All gallons	7.36
<sup>(1)</sup> Non-potable water is to be used unless the source well is off-line for repairs and/or maintenance.	

<u>REFUNDABLE METER AND SERVICE LINE CHARGES:</u> (Refundable pursuant to A.A.C. R14-2-405)			
	Commission Final		
	Service Line	Meter Charge	Total Charge
5/8" x 3/4" Meter	\$ 1,500	\$ 175	\$ 1,675
3/4" Meter	1,800	200	2,000
1" Meter	2,100	300	2,400
1 1/2" Meter	2,320	500	2,820
2" Meter	3,240	1,650	4,890
3" Meter	5,210	3,200	8,410
4" Meter	6,230	4,500	10,730
6" Meter and Larger	At Cost	At Cost	At Cost

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	Commission Final
<u>HYDRANT METER DEPOSIT:</u>	
(non-interest bearing and fully refundable upon return of meter in good condition and payment of final bill)	
<u>Hydrant Meter Deposit – 3" Meter</u>	\$740.00

	Commission Final
<u>SERVICE CHARGES:</u>	
Establishment	\$35.00
Establishment (After Hours)	NT
Reconnection (Delinquent)	\$30.00
Meter Test (If Correct)	\$30.00
Deposit	*
Deposit Interest	6.0%
Reestablishment (Within 12 Months)	**
NSF Check	\$30.00
Deferred Payment (Per Month)	1.5%
Meter Reread (If Correct)	\$30.00
Late Payment Penalty	Greater of \$3.00 or 1.5% of unpaid balance
After-Hours Service Charge (at Customer Request)	\$40.00
<u>Monthly Service Charge for Fire Sprinkler:</u>	
4" or Smaller	***
6"	***
8"	***
10"	***
Larger than 10"	***

1 \* Per A.A.C. R14-2-403(B) Residential – two times the average bill by class. Non-  
 2 residential – two and one-half times the customer’s estimated maximum monthly  
 3 bill.  
 4 \*\* Months off system times the monthly minimum per A.A.C. R14-2-403(D)  
 5 \*\*\* 1% of monthly minimum for a comparable sized meter connection, but not less  
 6 than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable  
 7 for service lines separate and distinct from the primary water service line.  
 8  
 9 NOTE: Picacho Water may only charge one NSF fee when customers are billed for water  
 10 and wastewater service on one bill.  
 11  
 12 In addition to the collection of regular rates, the utility will collect from its customers a  
 13 proportionate share of any privilege, sales, or use tax, per Commission Rule R14-2-  
 14 409(D)(5).  
 15

16 For a residential customer served by a 5/8" x 3/4" meter with average or median monthly  
 17 consumption, the rates approved herein would result in the following bill impact:

Usage	Current Bill	New Bill	\$ Increase	% Increase
Average (5,003 gallons)	\$30.01	\$36.86	\$6.85	22.83%
Median (3,500 gallons)	\$25.50	\$32.07	\$6.57	25.76%

18 For an irrigation customer served by a 5/8" x 3/4" meter with average or median monthly  
 19 consumption, the rates approved herein would result in the following bill impact:

Usage	Current Bill	New Bill	\$ Increase	% Increase
Average (34,153 gallons)	\$117.46	\$239.92	\$122.46	104.26%
Median (26,500 gallons)	\$94.50	\$183.59	\$89.09	94.28%

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1           **B.     Picacho Sewer Rates & Charges**

2           The determinations made in the preceding sections herein result in the following rates and  
3 charges for Picacho Sewer, which we find to be just and reasonable and in the public interest:

Picacho Sewer	Commission Final
<u>MONTHLY SERVICE CHARGE:</u>	
5/8" x 3/4" Meter – Residential, Commercial	\$ 106.73
3/4" Meter – Residential, Commercial	160.10
1" Meter – Residential, Commercial	266.83
1 1/2" Meter – Residential, Commercial	533.65
2" Meter – Residential, Commercial	853.84
3" Meter – Residential, Commercial	1,707.68
4" Meter – Residential, Commercial	2,668.25
6" Meter – Residential, Commercial	5,336.50
8" Meter – Residential, Commercial	8,538.40
10" Meter – Residential, Commercial	12,273.95
12" Meter – Residential, Commercial	22,946.95
<u>COMMODITY RATE:</u> (Per 1,000 gallons)	
Effluent	
All Usage	0.87
<u>SERVICE CHARGE:</u>	
Establishment	\$35.00
Reestablishment (Within 12 months)	*
Reconnection (Delinquent)	\$30.00
Disconnection/Reconnection (Delinquent Account)	Cost**
Deposit	***
Deposit Interest (Per Annum)	6%****
NSF Check	\$30.00
Late Payment Penalty (Per Month)	1.5%
Deferred Payment (Per Month)	1.5%
After-Hours Service Charge (at Customer Request)	\$40.00
Road Cutting or Boring	At Cost

1 \* Per Commission Rule A.A.C. R14-2-603(D) – Months off the system times the  
 2 monthly service charge.  
 3 \*\* Cost: The actual cost of disconnection and reconnection, including costs for  
 4 excavation and trenching, pipeline modification, backfill and grading, road repairs,  
 5 and permitting  
 6 \*\*\* Per Commission Rule A.A.C. R14-2-603(B)(7)  
 7 \*\*\*\* Per Commission Rule A.A.C. R14-2-603(B)(3)  
 8  
 9 NOTE: Picacho Sewer may only charge one NSF fee when customers are billed for water and  
 10 wastewater service on one bill.  
 11  
 12 In addition to the collection of regular rates, the utility will collect from its customers a  
 13 proportionate share of any privilege, sales, or use tax, per Commission Rule R14-2-608(D)(5).

14 For a residential customer served by a 5/8" x 3/4" meter, the rates approved herein would result in the  
 15 following bill impact:

Current Bill	Proposed Bill	\$ Increase	% Increase
\$42.00	\$106.73	\$64.73	154.12%

#### 16 C. Tariff Requirements

17 The proposed Cross-Connection or Backflow Tariff and proposed Curtailment Plan Tariff for  
 18 Picacho Water are consistent with the Commission's current standards and should be approved.

19 Mr. Aten's recommendation for Picacho Sewer to be required, within 60 days of a decision in  
 20 this matter, to file a sewer MXA Tariff and Plan of Administration is reasonable and appropriate and  
 21 should be approved.

#### 22 D. Depreciation Rates

23 Picacho's proposal to adopt Staff's typical depreciation rates for Picacho Water and Picacho  
 24 Sewer, as those rates are set forth in Appendix E, Table E1 and Table E2, respectively, of Staff Exhibit  
 25 S-6 (Mr. Aten's direct engineering testimony) is reasonable and appropriate and should be approved.<sup>347</sup>

#### 26 E. Deferral of Depreciation

27 Picacho's request to be granted explicit authority to defer the depreciation on the PHFFU  
 28 established herein for Picacho Water and Picacho Sewer, with no carrying costs and with an

<sup>347</sup> See Ex. S-6 at 000333-000334.

1 understanding that Picacho may ask to have the respective portions of deferred depreciation included  
2 in rate base for each of the Picacho utilities in a subsequent rate case or rate cases, though there is no  
3 guarantee of recovery, is reasonable and appropriate and should be approved.

4 **F. Rate Case Expenses**

5 The proposal for Picacho Water and Picacho Sewer to be permitted to collect from their  
6 respective customers the total amount of \$26,500 each, or such lower amount as is actually incurred,  
7 for rate case expense, through a monthly surcharge assessed equally upon each customer, over a three-  
8 year period or until such time as the full amount is recovered, whichever comes first, and subject to  
9 true-up, is reasonable and appropriate and should be approved.

10 **G. Financings**

11 Picacho's water financing application, modified to allow Picacho Water to incur long-term debt  
12 in an amount constituting up to 40% of Picacho Water's capitalization, with the interest rate for the  
13 financing limited to the 20-year U.S. Treasury bond rate plus 150 basis points and to be capped at 7%  
14 total, and each loan to have a maturity date of 20 years after closing, should be approved. Using the  
15 revenue requirement established herein and \$4 million debt authorization requested, the impact of the  
16 proposed debt for Picacho Water would be a DSC of 4.18 and a TIER of 3.05.

17 Picacho's sewer financing application, modified to allow Picacho Sewer to incur long-term debt  
18 in an amount constituting up to 40% of Picacho Sewer's capitalization, with the interest rate for the  
19 financing limited to the 20-year U.S. Treasury bond rate plus 150 basis points and to be capped at 7%  
20 total, and each loan to have a maturity date of 20 years after closing, should be approved. Using the  
21 revenue requirement established herein and \$8 million debt authorization requested, the impact of the  
22 proposed debt for Picacho Sewer would be a DSC of 1.11 and a TIER of 1.58.

23 **FINDINGS OF FACT**

24 1. The information about the parties to this matter set forth in Section I of the Discussion  
25 portion of this Decision is accurate, and we adopt it in its entirety as though set forth fully here.

26 2. The procedural history for this matter set forth in Section II of the Discussion portion  
27 of this Decision is accurate, and we adopt it in its entirety as though set forth fully here.

28 3. The background information, system information, and compliance information set forth

1 in Section III of the Discussion portion of this Decision is accurate, and we adopt it in its entirety as  
2 though set forth fully here.

3 4. The descriptions of the applications and of information provided to support the  
4 applications set forth in Section IV of the Discussion portion of this Decision are accurate, and we  
5 adopt them in their entirety as though set forth fully here.

6 5. The descriptions of Staff's initial positions in this matter and of information provided  
7 to support Staff's initial positions set forth in Section V of the Discussion portion of this Decision are  
8 accurate, and we adopt them in their entirety as though set forth fully here.

9 6. The description of Picacho and Staff's final unified positions and of information  
10 provided to support their final unified positions set forth in Section VI of the Discussion portion of this  
11 Decision is accurate, and we adopt it in its entirety as though set forth fully here.

12 7. The description of the Intervenors' positions set forth in Section VII of the Discussion  
13 portion of this Decision is accurate, and we adopt it in its entirety as though set forth fully here.

14 8. The background information, descriptions of parties' positions, and descriptions of  
15 evidence in Section VIII of the Discussion portion of this Decision are accurate, and we incorporate  
16 them as though set forth fully here.

17 9. The resolutions reached in Section VIII of the Discussion portion of this Decision were  
18 reached after consideration of the evidence presented in this matter and the information officially  
19 noticed under A.A.C. R14-3-109(T), as well as existing law (the Arizona Constitution, statutes, rules,  
20 and caselaw, as applicable), and are just and reasonable and in the public interest. We incorporate the  
21 resolutions as though set forth fully here.

22 10. The rates, charges, terms and conditions of service, requirements, and approvals set out  
23 in Section IX of the Discussion portion of this Decision were reached after consideration of the  
24 evidence presented in this matter and the information officially noticed under A.A.C. R14-3-109(T),  
25 as well as existing law (the Arizona Constitution, statutes, rules, and caselaw, as applicable), and are  
26 just and reasonable and in the public interest. We incorporate the rates, charges, terms and conditions  
27 of service, requirements, and approvals as though set forth fully here.

28 11. The rates, charges, and terms and conditions of service resulting from the Commission's

1 resolution of the issues herein do not result in “discrimination in charges, service, or facilities . . .  
2 between persons or places for rendering a like and contemporaneous service” under Article 15, § 12 of  
3 the Arizona Constitution.

4 12. The rates, charges, and terms and conditions of service resulting from the Commission’s  
5 resolution of the issues herein do not “make or grant any preference or advantage to any person or  
6 subject any person to any prejudice or disadvantage” and do not “establish or maintain any  
7 unreasonable difference as to rates, charges, service, facilities or in any other respect, either between  
8 localities or between classes of service” under A.R.S. § 40-334.

### 9 CONCLUSIONS OF LAW

10 1. Picacho Water and Picacho Sewer are Arizona public service corporations within the  
11 meaning of Article XV, § 2, of the Arizona Constitution and A.R.S. Title 40.

12 2. The Commission has jurisdiction over Picacho Water, Picacho Sewer, the subject matter  
13 of their rate and financing applications, and the issues raised and resolved herein.

14 3. Notice of the applications and hearing was provided in accordance with the law.

15 4. The OCRB/FVRB for Picacho Water is \$9,442,724.

16 5. The OCRB/FVRB for Picacho Sewer is \$7,665,761.

17 6. A rate of return of 8.31% for Picacho Water results in just and reasonable rates and a  
18 revenue requirement that is sufficient to maintain Picacho Water’s financial integrity, will enable  
19 Picacho Water to attract capital under reasonable terms, and is commensurate with returns that  
20 investors could earn by investing in other enterprises of comparable risk.

21 7. A rate of return of 8.31% for Picacho Sewer results in just and reasonable rates and a  
22 revenue requirement that is sufficient to maintain Picacho Sewer’s financial integrity, will enable  
23 Picacho Sewer to attract capital under reasonable terms, and is commensurate with returns that  
24 investors could earn by investing in other enterprises of comparable risk.

25 8. The rates, charges, and terms and conditions of service resulting from the Commission’s  
26 resolution of the issues herein do not result in “discrimination in charges, service, or facilities . . .  
27 between persons or places for rendering a like and contemporaneous service” under Article 15, § 12 of  
28 the Arizona Constitution.



1 IT IS FURTHER ORDERED that the rates and charges and terms and conditions of service  
2 approved herein shall become effective for all service rendered on and after April 1, 2026.

3 IT IS FURTHER ORDERED that Picacho shall notify its customers of the Picacho Water and  
4 Picacho Sewer revised rates and charges by means of an insert in the next scheduled billing for each  
5 (sent by mail or electronically) and by posting a notice on Picacho's website, in a form acceptable to  
6 Staff.

7 IT IS FURTHER ORDERED that the proposed Cross-Connection or Backflow Tariff and  
8 proposed Curtailment Plan Tariff for Picacho Water are approved.

9 IT IS FURTHER ORDERED that Picacho Sewer shall, within 60 days after the effective date  
10 of this Decision, file as a compliance item in this matter a sewer Main Extension Agreement Tariff and  
11 Plan of Administration.

12 IT IS FURTHER ORDERED that going forward, Picacho Water and Picacho Sewer shall use  
13 the depreciation rates set forth in Appendix E, Table E1 and Table E2, respectively, of Staff Exhibit S-  
14 6 (Mr. Aten's direct engineering testimony).

15 IT IS FURTHER ORDERED that Picacho Water and Picacho Sewer are authorized to defer  
16 depreciation on the following plant held for future use established herein for each of them, with no  
17 carrying costs, and that Picacho Water and Picacho Sewer each may ask to have its respective portion  
18 of deferred depreciation included in rate base in a subsequent rate case or rate cases, though there is no  
19 guarantee of recovery:

- 20 • Picacho Water plant held for future use: \$738,011 in transmission and distribution mains and  
21 \$307,769 in services, and
- 22 • Picacho Sewer plant held for future use: \$721,677 in gravity collection systems and \$409,805  
23 in services to customers.

24 IT IS FURTHER ORDERED that Picacho Water and Picacho Sewer each may collect from its  
25 respective customers the total amount of \$26,500, or such lower amount as is actually incurred, for rate  
26 case expense, through a monthly surcharge assessed equally upon each customer, over a three-year  
27 period or until such time as the full amount is recovered, whichever comes first, and subject to true-up  
28 and refunding if any over-collection occurs.

1 IT IS FURTHER ORDERED that Picacho shall file, as a compliance item in this matter, within  
2 30 days after it ceases to collect the monthly rate case expense surcharge, a notice stating the date that  
3 the monthly rate case expense surcharge was discontinued for each of the Picacho utilities and showing  
4 that the amount collected by each Picacho utility did not exceed a total of \$26,500 or such lower amount  
5 as the Picacho utility actually incurred for rate case expense in this matter.

6 IT IS FURTHER ORDERED that Picacho Water is authorized to obtain long-term debt from  
7 JW Water or from an affiliate formed by JW Water for the purpose of lending money to affiliates of  
8 JW Water ("JW Lending Affiliate"), in an amount that equals up to 40% of Picacho Water's  
9 capitalization at the time of closing on each loan, subject to the following restrictions:

- 10 • The interest rate for the long-term debt shall be limited to the 20-year U.S. Treasury bond rate  
11 plus 150 basis points and shall not exceed 7% total, with the U.S. Treasury bond rate to be  
12 determined as of the closing date of the long-term debt; and
- 13 • The maturity date for each loan shall be set at the date 20 years after the closing date.

14 IT IS FURTHER ORDERED that Picacho Sewer is authorized to obtain long-term debt from  
15 JW Water or from a JW Lending Affiliate, in an amount that equals up to 40% of Picacho Sewer's  
16 capitalization at the time of closing on each loan, subject to the following restrictions:

- 17 • The interest rate for the long-term debt shall be limited to the 20-year U.S. Treasury bond rate  
18 plus 150 basis points and shall not exceed 7% total, with the U.S. Treasury bond rate to be  
19 determined as of the closing date of the long-term debt; and
- 20 • The maturity date for each loan shall be set at the date 20 years after the closing date.

21 IT IS FURTHER ORDERED that Picacho Water and Picacho Sewer are authorized to engage  
22 in all transactions and to execute any documents necessary to effectuate the financing authorizations  
23 granted in this Decision.

24 IT IS FURTHER ORDERED that Picacho Water and Picacho Sewer each shall file, as a  
25 compliance item in this matter, within 30 days of the execution of a related loan issuance, a copy of the  
26 loan documents executed pursuant to the financing authorization granted to it in this Decision, along  
27 with documentation to establish that the cumulative amount of long-term debt does not exceed 40% of  
28 Picacho Water's or Picacho Sewer's capitalization, as applicable, at the time of closing on the loan.

1           IT IS FURTHER ORDERED that Picacho Water and Picacho Sewer each shall file, as a  
2 compliance item in this matter, within 30 days of the execution of a related loan issuance,  
3 documentation demonstrating that the interest rate consummated between Picacho Water or Picacho  
4 Sewer as borrower and JW Water or a JW Lending Affiliate as lender was based on the prevailing 20-  
5 year U.S. Treasury bond rate as of the closing date of the long-term debt, plus a credit spread not to  
6 exceed 150 basis points, and does not exceed 7% total.

7           IT IS FURTHER ORDERED that Picacho Water and Picacho Sewer each shall, within 90 days  
8 after the effective date of this Decision, file in a new docket, a Hook-Up Fee Tariff designed to ensure  
9 that growth pays for growth.

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1 IT IS FURTHER ORDERED that Picacho Water and Picacho Sewer shall, on the same date  
2 the Hook-Up Fee Tariffs are filed in the new dockets, file, as a compliance item in this docket, a notice  
3 that such filings have been made.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6  
7   
8 CHAIR MYERS

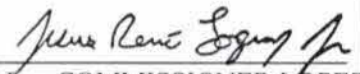
  
VICE CHAIR WALDEN

9 **DISSENT**

10 COMMISSIONER MÁRQUEZ PETERSON

**DISSENT**

COMMISSIONER THOMPSON



COMMISSIONER LOPEZ



11  
12 IN WITNESS WHEREOF, I, DOUGLAS R. CLARK,  
13 Executive Director of the Arizona Corporation Commission,  
14 have hereunto set my hand and caused the official seal of the  
15 Commission to be affixed at the Capitol, in the City of Phoenix,  
16 this 10th day of March 2026.

  
DOUGLAS R. CLARK  
EXECUTIVE DIRECTOR

17  
18 **DISSENT** 

19  
20 **DISSENT**   
21 SNH/(gb)

1 SERVICE LIST FOR: PICACHO WATER COMPANY AND PICACHO  
2 SEWER COMPANY

3 DOCKET NO.: W-03528A-25-0056, SW-03709A-25-0057, W-03528A-  
4 25-0096 and SW-03709A-25-0097

5 Jay L. Shapiro  
6 SHAPIRO LAW FIRM, P.C.  
7 20860 N. Tatum Blvd., Suite 300  
8 Phoenix, AZ 85050  
9 Attorney for Picacho Water Company and Picacho Sewer Company  
10 [jay@shapslawaz.com](mailto:jay@shapslawaz.com)

11 **Consented to Service by Email**

12 Court S. Rich  
13 Logan V. Elia  
14 Eric A. Hill  
15 ROSE LAW GROUP pc  
16 7144 E. Stetson Drive, Suite 300  
17 Scottsdale, AZ 85251  
18 Attorneys for Raul Salmon and Scott McBeth  
19 [crish@roselawgroup.com](mailto:crish@roselawgroup.com)  
20 [lelia@roselawgroup.com](mailto:lelia@roselawgroup.com)  
21 [ehill@roselawgroup.com](mailto:ehill@roselawgroup.com)  
22 [hslaughter@roselawgroup.com](mailto:hslaughter@roselawgroup.com)  
23 [raulsalmon9@gmail.com](mailto:raulsalmon9@gmail.com)  
24 [skmcbeth@prodigy.net](mailto:skmcbeth@prodigy.net)  
25 [avanbalen@roselawgroup.com](mailto:avanbalen@roselawgroup.com)

26 **Consented to Service by Email**

27 Thomas Van Flein, Director  
28 Office of General Counsel  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, AZ 85007  
[OGC@azcc.gov](mailto:OGC@azcc.gov)  
[utildivservicebyemail@azcc.gov](mailto:utildivservicebyemail@azcc.gov)

**Consented to Service by Email**

Picacho Sewer  
2-Year Phase-in

Company Phase-in Proposal

Phase 1 - 60% of revenue Increase for 8 months  
 Phase 2 - 100% of revenue Increase for 8 months  
 Phase 3 - Recovery of foregone revenues starting in 17th month.  
 Begin recovery of foregone revenues plus interest in 17th month and continue through 24th month.

Total Rev. Incr. \$ 1,546,479  
 % Increase 161.99%

	% of Increase	Increase	Rev. Req.	Monthly Foregone Revenues
Phase 1	60.00%	\$ 927,887	\$ 1,882,541	\$ 51,549.30
Phase 2	100.00%	\$ 618,592	\$ 2,501,132	\$ -
Phase 3	100.00%	\$ 1,546,479	\$ 2,501,132	\$ -

Computation of Foregone Revenues (FGR) Plus Interest

Annual Rate 8.64% authorized cost of capital  
 Monthly Rate 0.720%

Month	Monthly Foregone Revenue (FGR)	Cummulative FGR w/ Int.	Interest	Total
Apr-26	\$ 51,549.30	\$ 51,549.30	\$ 371.15	\$ 51,920.46
May-26	\$ 51,549.30	\$ 103,469.76	\$ 744.98	\$ 104,214.75
Jun-26	\$ 51,549.30	\$ 155,764.05	\$ 1,121.50	\$ 156,885.55
Jul-26	\$ 51,549.30	\$ 208,434.85	\$ 1,500.73	\$ 209,935.59
Aug-26	\$ 51,549.30	\$ 261,484.89	\$ 1,882.69	\$ 263,367.58
Sep-26	\$ 51,549.30	\$ 314,916.88	\$ 2,267.40	\$ 317,184.29
Oct-26	\$ 51,549.30	\$ 368,733.59	\$ 2,654.88	\$ 371,388.47
Nov-26	\$ 51,549.30	\$ 422,937.78	\$ 3,045.15	\$ 425,982.93
Dec-26	\$ -	\$ 425,982.93	\$ 3,067.08	\$ 429,050.00
Jan-27	\$ -	\$ 429,050.00	\$ 3,089.16	\$ 432,139.16
Feb-27	\$ -	\$ 432,139.16	\$ 3,111.40	\$ 435,250.57
Mar-27	\$ -	\$ 435,250.57	\$ 3,133.80	\$ 438,384.37
Apr-27	\$ -	\$ 438,384.37	\$ 3,156.37	\$ 441,540.74
May-27	\$ -	\$ 441,540.74	\$ 3,179.09	\$ 444,719.83
Jun-27	\$ -	\$ 444,719.83	\$ 3,201.98	\$ 447,921.81
Jul-27	\$ -	\$ 447,921.81	\$ 3,225.04	\$ 451,146.85
Aug-27	\$ (57,819.49)	\$ 393,327.36	\$ 2,831.96	\$ 396,159.32
Sep-27	\$ (57,819.49)	\$ 338,339.82	\$ 2,436.05	\$ 340,775.87
Oct-27	\$ (57,819.49)	\$ 282,956.38	\$ 2,037.29	\$ 284,993.66
Nov-27	\$ (57,819.49)	\$ 227,174.17	\$ 1,635.65	\$ 228,809.82
Dec-27	\$ (57,819.49)	\$ 170,990.33	\$ 1,231.13	\$ 172,221.46
Jan-28	\$ (57,819.49)	\$ 114,401.97	\$ 823.69	\$ 115,225.66
Feb-28	\$ (57,819.49)	\$ 57,406.17	\$ 413.32	\$ 57,819.49
Mar-28	\$ (57,819.49)	\$ 0.00	\$ 0.00	\$ 0.00

Total of Foregone Revenues before Interest before starting collection \$ 412,394

Total Interest \$ 50,162

[1] = sum of monthly FGR for months 1-16	Foregone Revenues	\$ 412,394.43
[2] = sum of interest	Interest	\$ 50,161.51
[3] = [1] + [2]	Total	\$ 462,555.94
[4]	Months to Recover	8
[5] = [3]/[4]	Monthly Recovery Amount	\$ 57,819.49
[6] = [1]	Total Foregone Revenues w/ Interest	\$ 462,555.94
[7] = see calculation below	No. 5/8 Equivalent Customers	1,891.0
[8] = [6] / [7]	Recovery Amount per Equivalent 5/8 inch meter	\$ 244.61
[9] = [8]/[4]	Monthly Charge per Equivalent 5/8 Inch meter	\$ 30.58

Meter Size	AWWA Factor	Number of YE Customers	Equivalent 5/8" Meters	Equivalent 5/8" Monthly Charge	Monthly Surcharge
5/8 Inch	1.00	1,831.0	1,831.0	\$ 30.58	\$ 30.58
3/4 Inch	1.50	0.0	0.0	30.58	45.87
1 Inch	2.50	4.0	10.0	30.58	76.45
1 1/2 Inch	5.00	2.0	10.0	30.58	152.90
2 Inch	8.00	5.0	40.0	30.58	244.64
3 Inch	16.00	0.0	0.0	30.58	489.28
4 Inch	25.00	0.0	0.0	30.58	764.50
Total		1,842.00	1,891.00		

Picacho Sewer  
3-Year Phase-in

Company Phase-in Proposal

Phase 1 - 60% of revenue Increase for 12 months  
 Phase 2 - 100% of revenue Increase for 12 months  
 Phase 3 - Recovery of foregone revenues starting in 25th month.  
 Begin recovery of foregone revenues plus interest in 25th month and continue through 36th month.

Total Rev. Incr	\$	1,546,479			
% Increase		161.99%			
	% of Increase	Increase	Rev Req	Monthly Foregone Revenues	
Phase 1	60.00%	\$ 927,887	\$ 1,882,541	\$ 51,549.30	
Phase 2	100.00%	\$ 618,592	\$ 2,501,132	\$ -	
Phase 3	100.00%	\$ 1,546,479	\$ 2,501,132	\$ -	

Computation of Foregone Revenues (FGR) Plus Interest

Annual Rate 8.64% authorized cost of capital  
 Monthly Rate 0.720%

Month	Monthly Foregone Revenue (FGR)	Cumulative FGR w/ Int.	Interest	Total
Apr-26	\$ 51,549.30	\$ 51,549.30	\$ 371.15	\$ 51,920.46
May-26	\$ 51,549.30	\$ 103,469.76	\$ 744.98	\$ 104,214.75
Jun-26	\$ 51,549.30	\$ 155,764.05	\$ 1,121.50	\$ 156,885.55
Jul-26	\$ 51,549.30	\$ 208,434.85	\$ 1,500.73	\$ 209,935.59
Aug-26	\$ 51,549.30	\$ 261,484.89	\$ 1,882.69	\$ 263,367.58
Sep-26	\$ 51,549.30	\$ 314,916.88	\$ 2,267.40	\$ 317,184.29
Oct-26	\$ 51,549.30	\$ 368,733.59	\$ 2,654.88	\$ 371,388.47
Nov-26	\$ 51,549.30	\$ 422,937.78	\$ 3,045.15	\$ 425,982.93
Dec-26	\$ 51,549.30	\$ 477,532.23	\$ 3,436.23	\$ 480,970.46
Jan-27	\$ 51,549.30	\$ 532,519.77	\$ 3,834.14	\$ 536,353.91
Feb-27	\$ 51,549.30	\$ 587,903.21	\$ 4,232.90	\$ 592,136.12
Mar-27	\$ 51,549.30	\$ 643,685.42	\$ 4,634.54	\$ 648,319.96
Apr-27	\$ -	\$ 648,319.96	\$ 4,667.90	\$ 652,987.86
May-27	\$ -	\$ 652,987.86	\$ 4,701.51	\$ 657,689.37
Jun-27	\$ -	\$ 657,689.37	\$ 4,735.36	\$ 662,424.74
Jul-27	\$ -	\$ 662,424.74	\$ 4,769.46	\$ 667,194.19
Aug-27	\$ -	\$ 667,194.19	\$ 4,803.80	\$ 671,997.99
Sep-27	\$ -	\$ 671,997.99	\$ 4,838.39	\$ 676,836.38
Oct-27	\$ -	\$ 676,836.38	\$ 4,873.22	\$ 681,709.60
Nov-27	\$ -	\$ 681,709.60	\$ 4,908.31	\$ 686,617.91
Dec-27	\$ -	\$ 686,617.91	\$ 4,943.65	\$ 691,561.56
Jan-28	\$ -	\$ 691,561.56	\$ 4,979.24	\$ 696,540.80
Feb-28	\$ -	\$ 696,540.80	\$ 5,015.09	\$ 701,555.89
Mar-28	\$ -	\$ 701,555.89	\$ 5,051.20	\$ 706,607.10
Apr-28	\$ (61,235.04)	\$ 645,372.06	\$ 4,646.68	\$ 650,018.73
May-28	\$ (61,235.04)	\$ 588,783.89	\$ 4,239.24	\$ 593,022.94
Jun-28	\$ (61,235.04)	\$ 531,787.89	\$ 3,828.87	\$ 535,616.77
Jul-28	\$ (61,235.04)	\$ 474,381.73	\$ 3,415.55	\$ 477,797.27
Aug-28	\$ (61,235.04)	\$ 416,562.23	\$ 2,999.25	\$ 419,561.48
Sep-28	\$ (61,235.04)	\$ 358,326.44	\$ 2,579.95	\$ 360,906.39
Oct-28	\$ (61,235.04)	\$ 299,671.35	\$ 2,157.63	\$ 301,828.98
Nov-28	\$ (61,235.04)	\$ 240,593.94	\$ 1,732.28	\$ 242,326.22
Dec-28	\$ (61,235.04)	\$ 181,091.18	\$ 1,303.86	\$ 182,395.03
Jan-29	\$ (61,235.04)	\$ 121,159.99	\$ 872.35	\$ 122,032.34
Feb-29	\$ (61,235.04)	\$ 60,797.30	\$ 437.74	\$ 61,235.04
Mar-29	\$ (61,235.04)	\$ -	\$ -	\$ -

Total of Foregone Revenues before interest before starting collection \$ 618,592  
 Total Interest \$ 116,229

[1] = sum of monthly FGR for months 1-16 Foregone Revenues \$ 618,591.65  
 [2] = sum of interest Interest \$ 116,228.85  
 [3] = [1] + [2] Total \$ 734,820.50  
 [4] Months to Recover 12  
 [5] = [3]/[4] Monthly Recovery Amount \$ 61,235.04  
 [6] = [1] Total Foregone Revenues w/ Interest \$ 734,820.50  
 [7] = see calculation below No. 5/8 Equivalent Customers 1,891.0  
 [8] = [6]/[7] Recovery Amount per Equivalent 5/8 inch meter \$ 388.59  
 [9] = [8]/[4] Monthly Charge per Equivalent 5/8 Inch meter \$ 32.38

Meter Size	AWWA Factor	Number of YE Customers	Equivalent 5/8" Meters	Equivalent 5/8" Monthly Charge	Monthly Surcharge
5/8 Inch	1.00	1,831.0	1,831.0	\$ 32.38	\$ 32.38
3/4 Inch	1.50	0.0	0.0	32.38	48.57
1 Inch	2.50	4.0	10.0	32.38	80.95
1 1/2 Inch	5.00	2.0	10.0	32.38	161.90
2 Inch	8.00	5.0	40.0	32.38	259.04
3 Inch	16.00	0.0	0.0	32.38	518.08
4 Inch	25.00	0.0	0.0	32.38	809.50
Total		1,842.00	1,891.00		

Picacho Sewer  
5-Year Phase-in

Company Phase-in Proposal

Phase 1 - 60% of revenue increase for 12 months  
 Phase 2 - 75% of revenue increase for 12 months  
 Phase 3 - 85% of revenue increase for 12 months  
 Phase 4 - 100% of revenue increase for 12 months  
 Phase 5 - Recovery of foregone revenues starting in 49th month.  
 Begin recovery of foregone revenues plus interest in 49th month and continue through 60th month.

Phase	% of Increase	Increase	Rev. Rec.	Monthly Foregone Revenues
Phase 1	60.00%	\$ 927,887	\$ 1,862,541	\$ 51,549.30
Phase 2	75.00%	\$ 231,972	\$ 2,114,513	\$ 32,218.31
Phase 3	85.00%	\$ 154,648	\$ 2,269,160	\$ 19,330.99
Phase 4	100.00%	\$ 231,972	\$ 2,501,132	\$ (0.00)
Phase 5	100.00%	\$ 1,546,479	\$ 2,501,132	\$ -

Computation of Foregone Revenues (FGR) Plus Interest

Annual Rate 8.64% unlevered cost of capital  
 Monthly Rate 0.720%

Month	Monthly Foregone Revenue (FGR)	Cumulative FGR w/ Int.	Interest	Total
Apr-20	\$ 51,549.30	\$ 51,549.30	\$ 371.15	\$ 51,920.46
May-20	\$ 51,549.30	\$ 103,098.60	\$ 744.98	\$ 103,843.58
Jun-20	\$ 51,549.30	\$ 154,647.90	\$ 1,121.50	\$ 155,769.40
Jul-20	\$ 51,549.30	\$ 206,197.20	\$ 1,500.73	\$ 207,697.93
Aug-20	\$ 51,549.30	\$ 257,746.50	\$ 1,882.99	\$ 259,629.49
Sep-20	\$ 51,549.30	\$ 309,295.80	\$ 2,267.46	\$ 311,563.26
Oct-20	\$ 51,549.30	\$ 360,845.10	\$ 2,654.68	\$ 363,500.47
Nov-20	\$ 51,549.30	\$ 412,394.40	\$ 3,045.16	\$ 415,439.56
Dec-20	\$ 51,549.30	\$ 463,943.70	\$ 3,438.23	\$ 467,381.93
Jan-21	\$ 51,549.30	\$ 515,493.00	\$ 3,834.14	\$ 519,327.14
Feb-21	\$ 51,549.30	\$ 567,042.30	\$ 4,232.90	\$ 571,275.20
Mar-21	\$ 51,549.30	\$ 618,591.60	\$ 4,634.54	\$ 623,223.14
Apr-21	\$ 32,218.31	\$ 650,809.91	\$ 4,899.88	\$ 655,709.79
May-21	\$ 32,218.31	\$ 683,028.22	\$ 5,167.13	\$ 688,195.35
Jun-21	\$ 32,218.31	\$ 715,246.53	\$ 5,436.30	\$ 720,682.83
Jul-21	\$ 32,218.31	\$ 747,464.84	\$ 5,707.41	\$ 753,172.25
Aug-21	\$ 32,218.31	\$ 779,683.15	\$ 5,980.48	\$ 785,663.63
Sep-21	\$ 32,218.31	\$ 811,901.46	\$ 6,255.51	\$ 818,159.14
Oct-21	\$ 32,218.31	\$ 844,119.77	\$ 6,532.52	\$ 850,651.66
Nov-21	\$ 32,218.31	\$ 876,338.08	\$ 6,811.53	\$ 883,143.61
Dec-21	\$ 32,218.31	\$ 908,556.39	\$ 7,092.54	\$ 910,636.13
Jan-22	\$ 32,218.31	\$ 940,774.70	\$ 7,375.56	\$ 948,128.65
Feb-22	\$ 32,218.31	\$ 972,993.01	\$ 7,660.66	\$ 985,621.17
Mar-22	\$ 32,218.31	\$ 1,005,211.32	\$ 7,947.79	\$ 1,013,113.11
Apr-22	\$ 19,330.99	\$ 1,024,582.31	\$ 8,144.19	\$ 1,032,726.50
May-22	\$ 19,330.99	\$ 1,044,013.30	\$ 8,342.10	\$ 1,043,355.40
Jun-22	\$ 19,330.99	\$ 1,063,444.29	\$ 8,541.20	\$ 1,054,026.49
Jul-22	\$ 19,330.99	\$ 1,082,875.28	\$ 8,741.94	\$ 1,064,747.22
Aug-22	\$ 19,330.99	\$ 1,092,306.27	\$ 8,944.07	\$ 1,075,511.34
Sep-22	\$ 19,330.99	\$ 1,101,737.26	\$ 9,147.68	\$ 1,086,319.02
Oct-22	\$ 19,330.99	\$ 1,111,168.25	\$ 9,352.69	\$ 1,097,171.71
Nov-22	\$ 19,330.99	\$ 1,120,599.24	\$ 9,559.22	\$ 1,108,070.93
Dec-22	\$ 19,330.99	\$ 1,130,030.23	\$ 9,767.22	\$ 1,119,018.15
Jan-23	\$ 19,330.99	\$ 1,139,461.22	\$ 9,976.73	\$ 1,130,014.95
Feb-23	\$ 19,330.99	\$ 1,148,892.21	\$ 10,187.75	\$ 1,141,080.66
Mar-23	\$ 19,330.99	\$ 1,158,323.20	\$ 10,400.28	\$ 1,152,210.94
Apr-23	\$ 19,330.99	\$ 1,167,754.19	\$ 10,614.16	\$ 1,163,365.10
May-23	\$ 19,330.99	\$ 1,177,185.18	\$ 10,829.36	\$ 1,174,544.54
Jun-23	\$ 19,330.99	\$ 1,186,616.17	\$ 11,045.85	\$ 1,185,730.39
Jul-23	\$ 19,330.99	\$ 1,196,047.16	\$ 11,263.69	\$ 1,196,931.05
Aug-23	\$ 19,330.99	\$ 1,205,478.15	\$ 11,482.84	\$ 1,208,140.99
Sep-23	\$ 19,330.99	\$ 1,214,909.14	\$ 11,703.25	\$ 1,219,363.39
Oct-23	\$ 19,330.99	\$ 1,224,340.13	\$ 11,924.96	\$ 1,230,608.35
Nov-23	\$ 19,330.99	\$ 1,233,771.12	\$ 12,147.92	\$ 1,241,876.04
Dec-23	\$ 19,330.99	\$ 1,243,202.11	\$ 12,372.18	\$ 1,253,158.29
Jan-24	\$ 19,330.99	\$ 1,252,633.10	\$ 12,597.79	\$ 1,264,455.89
Feb-24	\$ 19,330.99	\$ 1,262,064.09	\$ 12,824.69	\$ 1,275,760.58
Mar-24	\$ 19,330.99	\$ 1,271,495.08	\$ 13,052.82	\$ 1,287,073.40
Apr-24	\$ 19,330.99	\$ 1,280,926.07	\$ 13,282.21	\$ 1,298,395.61
May-24	\$ 19,330.99	\$ 1,290,357.06	\$ 13,512.89	\$ 1,309,728.40
Jun-24	\$ 19,330.99	\$ 1,300,788.05	\$ 13,744.80	\$ 1,321,073.25
Jul-24	\$ 19,330.99	\$ 1,311,219.04	\$ 13,977.96	\$ 1,332,421.20
Aug-24	\$ 19,330.99	\$ 1,321,650.03	\$ 14,212.40	\$ 1,343,771.63
Sep-24	\$ 19,330.99	\$ 1,332,081.02	\$ 14,448.15	\$ 1,355,124.78
Oct-24	\$ 19,330.99	\$ 1,342,512.01	\$ 14,685.25	\$ 1,366,480.26
Nov-24	\$ 19,330.99	\$ 1,352,943.00	\$ 14,923.63	\$ 1,377,837.63
Dec-24	\$ 19,330.99	\$ 1,363,374.00	\$ 15,163.32	\$ 1,389,196.95
Jan-25	\$ 19,330.99	\$ 1,373,805.00	\$ 15,404.35	\$ 1,400,558.35
Feb-25	\$ 19,330.99	\$ 1,384,236.00	\$ 15,646.66	\$ 1,411,921.01
Mar-25	\$ 19,330.99	\$ 1,394,667.00	\$ 15,890.27	\$ 1,423,285.28
Apr-25	\$ 19,330.99	\$ 1,405,098.00	\$ 16,135.11	\$ 1,434,650.39
May-25	\$ 19,330.99	\$ 1,415,529.00	\$ 16,381.20	\$ 1,446,016.59
Jun-25	\$ 19,330.99	\$ 1,425,960.00	\$ 16,628.56	\$ 1,457,383.15
Jul-25	\$ 19,330.99	\$ 1,436,391.00	\$ 16,877.21	\$ 1,468,749.76
Aug-25	\$ 19,330.99	\$ 1,446,822.00	\$ 17,127.17	\$ 1,480,116.17
Sep-25	\$ 19,330.99	\$ 1,457,253.00	\$ 17,378.46	\$ 1,491,482.46
Oct-25	\$ 19,330.99	\$ 1,467,684.00	\$ 17,631.00	\$ 1,502,849.00
Nov-25	\$ 19,330.99	\$ 1,478,115.00	\$ 17,884.80	\$ 1,514,215.80
Dec-25	\$ 19,330.99	\$ 1,488,546.00	\$ 18,140.88	\$ 1,525,582.88
Jan-26	\$ 19,330.99	\$ 1,498,977.00	\$ 18,398.26	\$ 1,536,949.26
Feb-26	\$ 19,330.99	\$ 1,509,408.00	\$ 18,656.95	\$ 1,548,316.15
Mar-26	\$ 19,330.99	\$ 1,519,839.00	\$ 18,916.97	\$ 1,559,682.97
Apr-26	\$ 19,330.99	\$ 1,530,270.00	\$ 19,178.35	\$ 1,571,049.35
May-26	\$ 19,330.99	\$ 1,540,701.00	\$ 19,441.09	\$ 1,582,416.44
Jun-26	\$ 19,330.99	\$ 1,551,132.00	\$ 19,705.21	\$ 1,593,783.65
Jul-26	\$ 19,330.99	\$ 1,561,563.00	\$ 19,970.72	\$ 1,605,150.37
Aug-26	\$ 19,330.99	\$ 1,572,000.00	\$ 20,237.64	\$ 1,616,517.64
Sep-26	\$ 19,330.99	\$ 1,582,437.00	\$ 20,505.98	\$ 1,627,884.58
Oct-26	\$ 19,330.99	\$ 1,592,874.00	\$ 20,775.76	\$ 1,639,251.26
Nov-26	\$ 19,330.99	\$ 1,603,311.00	\$ 21,046.99	\$ 1,650,617.25
Dec-26	\$ 19,330.99	\$ 1,613,748.00	\$ 21,319.68	\$ 1,661,982.93
Jan-27	\$ 19,330.99	\$ 1,624,185.00	\$ 21,593.84	\$ 1,673,348.77
Feb-27	\$ 19,330.99	\$ 1,634,622.00	\$ 21,869.48	\$ 1,684,714.25
Mar-27	\$ 19,330.99	\$ 1,645,059.00	\$ 22,146.61	\$ 1,696,079.86
Apr-27	\$ 19,330.99	\$ 1,655,496.00	\$ 22,425.24	\$ 1,707,445.10
May-27	\$ 19,330.99	\$ 1,665,933.00	\$ 22,705.38	\$ 1,718,810.48
Jun-27	\$ 19,330.99	\$ 1,676,370.00	\$ 22,986.94	\$ 1,730,175.42
Jul-27	\$ 19,330.99	\$ 1,686,807.00	\$ 23,269.94	\$ 1,741,540.36
Aug-27	\$ 19,330.99	\$ 1,697,244.00	\$ 23,554.39	\$ 1,752,895.75
Sep-27	\$ 19,330.99	\$ 1,707,681.00	\$ 23,840.29	\$ 1,764,250.04
Oct-27	\$ 19,330.99	\$ 1,718,118.00	\$ 24,127.65	\$ 1,775,604.69
Nov-27	\$ 19,330.99	\$ 1,728,555.00	\$ 24,416.48	\$ 1,786,959.17
Dec-27	\$ 19,330.99	\$ 1,738,992.00	\$ 24,706.79	\$ 1,798,313.96
Jan-28	\$ 19,330.99	\$ 1,749,429.00	\$ 25,008.59	\$ 1,809,668.55
Feb-28	\$ 19,330.99	\$ 1,759,866.00	\$ 25,311.88	\$ 1,821,022.43
Mar-28	\$ 19,330.99	\$ 1,770,303.00	\$ 25,616.67	\$ 1,832,376.10
Apr-28	\$ 19,330.99	\$ 1,780,740.00	\$ 25,922.97	\$ 1,843,729.07
May-28	\$ 19,330.99	\$ 1,791,177.00	\$ 26,230.78	\$ 1,855,081.85
Jun-28	\$ 19,330.99	\$ 1,801,614.00	\$ 26,540.11	\$ 1,866,434.96
Jul-28	\$ 19,330.99	\$ 1,812,051.00	\$ 26,850.96	\$ 1,877,788.32
Aug-28	\$ 19,330.99	\$ 1,822,488.00	\$ 27,163.33	\$ 1,889,141.65
Sep-28	\$ 19,330.99	\$ 1,832,925.00	\$ 27,477.22	\$ 1,900,494.87
Oct-28	\$ 19,330.99	\$ 1,843,362.00	\$ 27,792.64	\$ 1,911,847.51
Nov-28	\$ 19,330.99	\$ 1,853,799.00	\$ 28,109.60	\$ 1,923,199.11
Dec-28	\$ 19,330.99	\$ 1,864,236.00	\$ 28,428.11	\$ 1,934,550.22
Jan-29	\$ 19,330.99	\$ 1,874,673.00	\$ 28,748.17	\$ 1,945,899.39
Feb-29	\$ 19,330.99	\$ 1,885,110.00	\$ 29,069.79	\$ 1,957,247.18
Mar-29	\$ 19,330.99	\$ 1,895,547.00	\$ 29,392.97	\$ 1,968,593.15
Apr-29	\$ 19,330.99	\$ 1,905,984.00	\$ 29,717.71	\$ 1,979,937.86
May-29	\$ 19,330.99	\$ 1,916,421.00	\$ 30,044.01	\$ 1,991,280.87
Jun-29	\$ 19,330.99	\$ 1,926,858.00	\$ 30,371.87	\$ 2,002,622.74
Jul-29	\$ 19,330.99	\$ 1,937,295.00	\$ 30,701.29	\$ 2,013,963.03
Aug-29	\$ 19,330.99	\$ 1,947,732.00	\$ 31,032.27	\$ 2,025,295.30
Sep-29	\$ 19,330.99	\$ 1,958,169.00	\$ 31,364.81	\$ 2,036,626.11
Oct-29	\$ 19,330.99	\$ 1,968,606.00	\$ 31,698.91	\$ 2,047,954.02
Nov-29	\$ 19,330.99	\$ 1,979,043.00	\$ 32,034.57	\$ 2,059,278.59
Dec-29	\$ 19,330.99	\$ 1,989,480.00	\$ 32,371.79	\$ 2,070,600.38
Jan-30	\$ 19,330.99	\$ 1,999,917.00	\$ 32,710.57	\$ 2,081,919.95
Feb-30	\$ 19,330.99	\$ 2,010,354.00	\$ 33,050.91	\$ 2,093,237.86
Mar-30	\$ 19,330.99	\$ 2,020,791.00	\$ 33,392.81	\$ 2,104,554.67
Apr-30	\$ 19,330.99	\$ 2,031,228.00	\$ 33,736.27	\$ 2,115,869.94
May-30	\$ 19,330.99	\$ 2,041,665.00	\$ 34,081.29	\$ 2,127,183.23
Jun-30	\$ 19,330.99	\$ 2,052,102.00	\$ 34,427.87	\$ 2,138,494.10
Jul-30	\$ 19,330.99	\$ 2,062,539.00	\$ 34,775.91	\$ 2,149,802.01
Aug-30	\$ 19,330.99	\$ 2,072,976.00	\$ 35,125.51	\$ 2,161,107.52
Sep-30	\$ 19,330.99	\$ 2,083,413.00	\$ 35,476.67	\$ 2,172,410.19
Oct-30	\$ 19,330.99	\$ 2,093,850.00	\$ 35,829.39	\$ 2,183,710.58
Nov-30	\$ 19,330.99	\$ 2,104,287.00	\$ 36,183.67	\$ 2,195,008.25
Dec-30	\$ 19,330.99	\$ 2,114,724.00	\$ 36,539.51	\$ 2,206,303.76
Jan-31	\$ 19,330.99	\$ 2,125,161.00	\$ 36,896.91	\$ 2,217,597.67
Feb-31	\$ 19,330.99	\$ 2,135,598.00	\$ 37,255.87	\$ 2,228,889.54
Mar-31	\$ 19,330.99	\$ 2,146,035.00	\$ 37,616.39	\$ 2,240,178.93

Total of Foregone Revenues before interest before starting collection	\$ 1,237,183
Total Interest	\$ 411,815
(1) = sum of monthly FGR for months 1-10	Foregone Revenues \$ 1,237,183.29
(2) = sum of interest	Interest \$ 411,815.35
(3) = (1) + (2)	Total \$ 1,648,998.64
(4)	Months to Recover 12
(5) = (3)/(4)	Monthly Recovery Amount \$ 137,416.55
(6) = (1)	Total Foregone Revenues w/ Interest \$ 1,648,998.64
(7) = see calculation below	No. S/B Equivalent Customers 1,391.0
(8) = (6)/(7)	Recovery Amount per Equivalent S/B inch meter \$ 872.32
(9) = (8)/(4)	Monthly Charge per Equivalent S/B inch meter \$ 72.67

Meter Size	AWWA Factor	Number of YE Customers	Equivalent S/B Meters	Equivalent S/B	Monthly Surcharge
5/8 inch	1.00	1,831.0	1,831.0	\$ 72.67	72.67
3/4 inch	1.50	0.0	0.0	0.0	109.01
1 inch	2.50	4.0	10.0	72.67	181.68
1 1/2 inch	5.00	2.0	16.0	72.67	363.35
2 inch	8.00	5.0	40.0	72.67	981.30
3 inch	16.00	0.0</			

# Exhibit 2

DOCKET NO. W-03528A-25-0056

Picacho Sewer Company  
 October 31, 2024  
 2 Year Phase-In

Staff 2 Year Phase-In  
 2 Phase

Phase-in Proposal

Phase 1 - 60% of revenue Increase for first 12 months.

Phase 2 - 100% recovery of revenue Increase for next 12 months (months 13 through 24) and recovery of foregone revenue plus interest via 12 month monthly surcharge.

Total Rev. Incr. \$1,546,479  
 Total Increase 161.99%

	% of Increase	Increase	Total Rev. Req.	Foregone Revenues (Annually)
Phase 1	60%	\$927,887	\$1,882,540	\$618,592
Phase 2	100%	\$1,546,479	\$2,501,132	0

Computation of Foregone Revenues Plus Interest

Annual Rate (carrying cost) 6.00%

	Foregone Revenue (FGR)	Cummulative FGR w/ Int.	Annual Interest	Total
Phase 1 (Months 1-12)	\$618,592	\$618,592	\$37,115	\$655,707
Phase 2 (Months 13-24)	(655,707)	0	0	0
Total			\$37,115	

[1]	Total Foregone Revenues	\$618,592
[2]	Sum of Interest	\$37,115
[3] = [1] + [2]	Total	\$655,707
[4]	Months to Recover	12
[5] = [3]	Total Foregone Revenues w/ Interest	\$655,707
[6] = see calculation below	No. 5/8 Equivalent Customers	1,891
[7] = [5] / [6]	Recovery Amount per Equivalent 5/8 inch meter	\$347
[8] = [7] / [3]	Monthly Charge per Equivalent 5/8 Inch meter	<b>\$28.90</b>

Meter Size	AWWA Factor	Number of Customers	Equivalent 5/8" Meters	Equivalent 5/8" Monthly Charge	Monthly Surcharge
5/8 Inch	1	1,831	1,831	\$28.90	\$28.90
3/4 Inch	1.5	0	0	\$0.00	\$0.00
1 Inch	2.5	4	10	\$28.90	\$72.24
1 1/2 Inch	5	2	10	\$28.90	\$144.48
2 Inch	8	5	40	\$28.90	\$231.17
Total		1,842	1,891		

Picacho Sewer Company  
 October 31, 2024  
 2 Year Phase-In

Staff 2 Year Phase-In 2  
 3 Phase

Phase-in Proposal

Phase 1 - 60% of revenue Increase for first 8 months.

Phase 2 - 100% of revenue Increase for next 8 months (months 9 through 16)

Phase 3 - 100% of revenue Increase for next 8 months (months 17 through 24) and recovery of foregone revenue plus interest via 8 month monthly surcharge.

Total Rev. Incr. \$1,546,479  
 Total Increase 161.99%

	% of Increase	Increase	Total Rev. Req.	Foregone Revenues (8 months)
Phase 1	60%	\$927,887	\$1,882,540	\$412,394
Phase 2	100%	\$1,546,479	\$2,501,132	0
Phase 3	100%	\$1,546,479	\$2,501,132	0

Computation of Foregone Revenues Plus Interest

Annual Rate (carrying cost) 6.00%

	Foregone Revenue (FGR)	Cummulative FGR w/ Int.	Interest	Total
Phase 1 (Months 1-8)	\$412,394	\$412,394	\$16,496	\$428,890
Phase 2 (Months 8-16)	\$0	\$428,890	\$17,156	\$446,046
Phase 3 (Months 17-24)	(446,046)	0	0	0
Total			\$33,651	

[1]	Total Foregone Revenues	\$412,394
[2]	Sum of Interest	\$33,651
[3] = [1] + [2]	Total	\$446,046
[4]	Months to Recover	8
[5] = [3]	Total Foregone Revenues w/ Interest	\$446,046
[6] = see calculation below	No. 5/8 Equivalent Customers	1,892
[7] = [5] / [6]	Recovery Amount per Equivalent 5/8 inch meter	\$236
[8] = [7] / [3]	Monthly Charge per Equivalent 5/8 Inch meter	<b>\$29.47</b>

Meter Size	AWWA Factor	Number of Customers	Equivalent 5/8" Meters	Equivalent 5/8" Monthly Charge	Monthly Surcharge
5/8 Inch	1	1,831	1,831	\$29.47	\$29.47
3/4 Inch	1.5	0	0	\$0.00	\$0.00
1 Inch	2.5	4	10	\$29.47	\$73.69
1 1/2 Inch	5	2	10	\$29.47	\$147.37
2 Inch	8	5	41	\$29.47	\$235.80
Total		1,842	1,892		

Picacho Sewer Company  
 October 31, 2024  
 3 Year Phase-In

Staff 3 Year Phase-In

Phase-in Proposal

Phase 1 - 60% of revenue Increase for first 12 months.

Phase 2 - 100% of revenue Increase for next 12 months (months 13 through 24).

Phase 3 - 100% recovery of revenues increase and recovery of foregone revenue plus interest via 12 month monthly surcharge. (months 25 through 36).

Total Rev. Incr. \$1,546,479  
 Total Increase 161.99%

	% of Increase	Increase	Total Rev. Req.	Foregone Revenues (Annually)
Phase 1	60%	\$927,887	\$1,882,540	\$618,592
Phase 2	100%	\$1,546,479	\$2,501,132	\$0
Phase 3	100%	\$1,546,479	\$2,501,132	\$0

Computation of Foregone Revenues Plus Interest

Annual Rate (carrying cost) 6.00%

	Foregone Revenue (FGR)	Cummulative FGR w/ Int.	Annual Interest	Total
Phase 1 (Months 1-12)	\$618,592	\$618,592	\$37,115	\$655,707
Phase 2 (Months 13-24)	0	655,707	\$39,342	\$695,050
Phase 3 (Months 25-36)	(695,050)	0	0	0
<b>Total</b>			\$76,458	

[1]	Total Foregone Revenues	\$618,592
[2]	Sum of Interest	\$76,458
[3] = [1] + [2]	Total	\$695,050
[4]	Months to Recover	12
[5] = [3]	Total Foregone Revenues w/ Interest	\$695,050
[6] = see calculation below	No. 5/8 Equivalent Customers	1,891
[7] = [5] / [6]	Recovery Amount per Equivalent 5/8 inch meter	\$368
[8] = [7] / [3]	Monthly Charge per Equivalent 5/8 Inch meter	<b>\$30.63</b>

Meter Size	AWWA Factor	Number of Customers	Equivalent 5/8" Meters	Equivalent 5/8" Monthly Charge	Monthly Surcharge
5/8 Inch	1	1,831	1,831	\$30.63	\$30.63
3/4 Inch	1.5	0	0	\$0.00	\$0.00
1 Inch	2.5	4	10	\$30.63	\$76.57
1 1/2 Inch	5	2	10	\$30.63	\$153.15
2 Inch	8	5	40	\$30.63	\$245.04
<b>Total</b>		1,842	1,891		



Picacho Sewer Company  
W-03528A-25-0056, et al.  
October 31, 2024

2 Year 2 Phase Schedule BPP-19

**TYPICAL BILL ANALYSIS**

**Residential**

	Present Rates	Proposed Rates	Phase-In Surcharge	Total	Dollar Increase	Percent Increase
Company Proposed	\$42.00	\$120.96		\$120.96	\$78.96	188.00%
Staff Recommended	\$42.00	\$109.00		\$109.00	\$67.00	159.52%
<b>Staff Phase 1</b>	\$42.00	\$81.75	\$0.00	<b>\$81.75</b>	\$39.75	94.64%
<b>Staff Phase 2</b>	\$81.75	\$109.00	\$28.90	<b>\$137.90</b>	\$56.15	68.68%

Picacho Sewer Company  
W-03528A-25-0056, et al.  
October 31, 2024

2 Year 3 Phase Schedule BPP-19

**TYPICAL BILL ANALYSIS**

**Residential**

	Present Rates	Proposed Rates	Phase-In Surcharge	Total	Dollar Increase	Percent Increase
Company Proposed	\$42.00	\$120.96		\$120.96	\$78.96	188.00%
Staff Recommended	\$42.00	\$109.00		\$109.00	\$67.00	159.52%
Staff Phase 1	\$42.00	\$81.75	\$0.00	<b>\$81.75</b>	\$39.75	94.64%
Staff Phase 2	\$81.75	\$109.00	\$0.00	<b>\$109.00</b>	\$27.25	33.33%
Staff Phase 3	\$109.00	\$109.00	\$29.47	<b>\$138.47</b>	\$29.47	27.04%

Picacho Sewer Company  
 W-03528A-25-0056, et al.  
 October 31, 2024

3 Year Phase-In Schedule BPP-19

**TYPICAL BILL ANALYSIS**

**Residential**

	Present Rates	Proposed Rates	Phase-In Surcharge	Total	Dollar Increase	Percent Increase
Company Proposed	\$42.00	\$120.96		\$120.96	\$78.96	188.00%
Staff Recommended	\$42.00	\$109.00		\$109.00	\$67.00	159.52%
<b>Staff Phase-In Year 1</b>	\$42.00	\$81.75	\$0.00	<b>\$81.75</b>	\$39.75	94.64%
<b>Staff Phase-In Year 2</b>	\$81.75	\$109.00	\$0.00	<b>\$109.00</b>	\$27.25	33.33%
<b>Staff Phase-In Year 3</b>	\$109.00	\$109.00	\$30.63	<b>\$139.63</b>	\$30.63	28.10%

Picacho Sewer Company  
W-03528A-25-0056, et al.  
October 31, 2024

5 Year Phase-In Schedule BPP-19

<b>TYPICAL BILL ANALYSIS</b>
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<b>Residential</b>
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	Present Rates	Proposed Rates	Phase-In Surcharge	Total	Dollar Increase	Percent Increase
Company Proposed	\$42.00	\$120.96		\$120.96	\$78.96	188.00%
Staff Recommended	\$42.00	\$109.00		\$109.00	\$67.00	159.52%
<b>Staff Phase-In Year 1</b>	\$42.00	\$81.75	\$0.00	<b>\$81.75</b>	\$39.75	94.64%
<b>Staff Phase-In Year 2</b>	\$81.75	\$92.00	\$0.00	<b>\$92.00</b>	\$10.25	12.54%
<b>Staff Phase-In Year 3</b>	\$92.00	\$98.80	\$0.00	<b>\$98.80</b>	\$6.80	7.39%
<b>Staff Phase-In Year 4</b>	\$98.80	\$109.00	\$0.00	<b>\$109.00</b>	\$10.20	10.32%
<b>Staff Phase-In Year 5</b>	\$109.00	\$109.00	\$66.19	<b>\$175.19</b>	\$66.19	60.73%

**COMMISSIONERS**  
Nick Myers – Chair  
Rachel Walden – Vice Chair  
Lea Márquez Peterson  
Kevin Thompson  
René Lopez



**LEA MÁRQUEZ PETERSON**  
Commissioner  
  
(602) 542-3625  
LMarquezPeterson-Web@azcc.gov

**ARIZONA CORPORATION COMMISSION**  
**OFFICE OF COMMISSIONER LEA MÁRQUEZ PETERSON**

March 5, 2026

Docket Control  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

**Re:** Picacho Water Company (W-03528A-25-0056, SW-03709A-25-0057, W-03528A-25-0096 and SW-03709A-25-0097) – Recommended Opinion and Order In the Matter of the Applications of Picacho Water Company and Picacho Sewer Company, Arizona Corporations, for a Determination of the Fair Value of their Utility Plant and Property and for Increases in their Rates and Charges for Utility Service Based Thereon and Requests for Financing Authority.

This letter is my formal dissent to the Decision March 4, 2026, on the above referenced case.

The Picacho Water and Sewer Company's combined Water and Sewer rate case Recommended Opinion and Order was analyzed with great care, and my team and I carefully reviewed all the comments, exceptions and correspondence filed in this case. One of the key reasons I voted no on this combined rate case was due to the large residential rate increases in the Sewer utility case, and the lack of gradualism or compromise by the company after hearing complaints of rate shock from many ratepayers.

I appreciate the analysis conducted by Administrative Law Judge Harpring on the Recommended Opinion and Order as there were a number of challenging facts. However, in my analysis, I determined that it would have been preferable to separate the rate cases for the Water and Sewer utilities for the vote by the Commissioners. As the company indicated during the hearing, they plan to file another Sewer rate case in 2027 to apply for cost recovery for the Sewer Plant remodel, and I believe it would have been more efficient to address the sewer rate base recovery at that time.

Ultimately, I could not vote in support of the Picacho Water and Sewer Utilities rate case as it was presented. I felt that the Company could have done far more to conduct public outreach and communicate the complexity of the sewer utility case to the ratepayers. JW Utilities via Picacho Water and Sewer Companies acknowledged during the meeting that they did not conduct public outreach early enough and failed to engage with the community beyond the bare minimum required from the public hearing. We received many public comments concerned with the dramatic rate increase though an increase was certainly expected from a utility who hadn't filed a rate case in over 25 years. I believe that more could have been done to promote gradualism and the company had a responsibility to educate the community on the rate case.

As a Commissioner who has engaged with the water utility industry in Arizona, I will continue to support the acquisition of failing water and sewer companies (which Picacho Water and Sewer were not) and the proper cost recovery to ensure just and reasonable rates.

Sincerely,

*Lea Márquez Peterson*

Lea Márquez Peterson  
Commissioner

