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COMMISSIONERS
MARC SPITZER - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

ORIGINAL



ARIZONA CORPORATION COMMISSION

22

DATE: July 16, 2004
DOCKET NO: W-02105A-03-0303
TO ALL PARTIES:

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Enclosed please find the recommendation of Administrative Law Judge Teena Wolfe. The recommendation has been filed in the form of an Opinion and Order on:

MOUNT TIPTON WATER COMPANY, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00 p.m.** on or before:

JULY 26, 2004

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

AUGUST 3 AND 4, 2004

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Secretary's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED
JUL 16 2004

BRIAN C. McNEIL
EXECUTIVE SECRETARY

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF
MOUNT TIPTON WATER COMPANY, INC. FOR
A RATE INCREASE.

DOCKET NO. W-02105A-03-0303

DECISION NO. _____

OPINION AND ORDER

DATE OF HEARING: June 9, 2004
PLACE OF HEARING: Dolan Springs, Arizona
ADMINISTRATIVE LAW JUDGE: Teena Wolfe
APPEARANCES: Ms. Sue Morgan, General Manager, on behalf of Mount
Tipton Water Company, Inc., and;
Mr. David Ronald, Staff Attorney, Legal Division, on
behalf of the Utilities Division of the Arizona
Corporation Commission.

BY THE COMMISSION:

On May 13, 2003, Mount Tipton Water Company, Inc. ("Mt. Tipton" or "Company") filed the above-captioned rate application with the Arizona Corporation Commission ("Commission").

By Procedural Order issued September 22, 2003, the above-captioned matter was set for hearing to commence at the Commission's Phoenix offices on March 25, 2004.

Following a request by the Dolan Springs Chamber of Commerce that the hearing be held in Dolan Springs, and a request from the Commission's Utilities Division Staff ("Staff") for a continuance of the hearing date, a Procedural Order was issued on January 21, 2004, moving the location of the hearing to Dolan Springs Community Hall and continuing the hearing date to June 9, 2004.

On March 15, 2004, the Commission received public comment on this matter in Mt. Tipton's service area, at Dolan Springs Community Hall.

1 On June 9, 2004, a full public hearing was held before a duly authorized Administrative Law
2 Judge of the Commission at Dolan Springs Community Hall. The Company appeared through its
3 General Manager and Staff appeared with counsel. Several members of the public appeared and
4 made public comment. Following the hearing, the matter was taken under advisement pending
5 submission of a Recommended Opinion and Order to the Commission.

6 * * * * *

7 Having considered the entire record herein and being fully advised in the premises, the
8 Commission finds, concludes, and orders that:

9 **FINDINGS OF FACT**

10 1. Pursuant to authority granted by the Commission in Decision No. 40644 (May 26,
11 1970), Mt. Tipton is a non-profit Arizona corporation engaged in the business of providing water
12 service to approximately 740 metered residential customers and a substantial number of standpipe
13 customers in an area approximately 27 miles north of Kingman, Mohave County, Arizona.

14 2. Mt. Tipton's present rates and charges were approved in Decision No. 60228 (June 12,
15 1997).

16 3. On December 28, 2001, the Commission issued Decision No. 64287, which authorized
17 the sale of assets and transfer of the Certificate of Convenience and Necessity of Dolan Springs
18 Water Company, Inc. to the Company. In order to fund the purchase of Dolan Springs Water
19 Company, Inc.'s water utility assets, the Decision also approved an Arizona Water Infrastructure
20 Authority ("WIFA") loan of \$880,000 in long-term debt to the Company.

21 4. On January 20, 2004, the Commission issued Decision No. 66732, which granted a
22 request by Mt. Tipton for emergency rate relief on an interim basis. Decision No. 66732 authorized
23 Mt. Tipton to collect an emergency monthly surcharge of \$8.11 per metered customer and \$1.20 per
24 1,000 gallons for standpipe customers for a period of six consecutive months following the effective
25 date of that Decision or until permanent rates become effective as a result of the application in this
26 docket, whichever comes first. Decision No. 66732 also ordered the Company to have a performance
27 audit performed, evaluate its findings, and seek appropriate relief action if necessary.

28 5. Pursuant to Decision No. 66732, the Company must cease charging the emergency

1 surcharges authorized by Decision No. 66732 after its August 2004 billings.

2 6. On May 13, 2003, Mt. Tipton filed a rate application. Mt. Tipton's filing proposed
3 operating revenues of \$437,827, which would result in a revenue increase of \$142,629, or 48.32
4 percent, over test year revenues of \$295,198, and would increase the typical monthly residential bill
5 at the median usage of 3,342 gallons from \$23.50 to \$35.29, for an increase of \$11.79, or 50.2
6 percent, and would increase the monthly residential bill at the average usage of 5,548 gallons from
7 \$28.69 to \$45.21, for an increase of \$16.52, or 57.6 percent.

8 7. On June 12, 2003, Staff filed a letter informing the Company that its application had
9 not met the sufficiency requirements of the Commission's rules.

10 8. On August 8, 2003, the Company filed an amendment to the May 13, 2003 rate
11 application.

12 9. On September 8, 2003, Staff filed a letter indicating the Company's rate application
13 was sufficient, and classifying the Company as a Class C utility.

14 10. By Procedural Order issued September 22, 2003, the above-captioned matter was set
15 for hearing to commence at the Commission's Phoenix offices on March 25, 2004.

16 11. On October 20, 2003, the Company filed Proof of Mailing of the Notice of Hearing as
17 required by the September 22, 2003 Procedural Order.

18 12. On November 26, 2003, a letter from the Dolan Springs Chamber of Commerce was
19 filed in this docket requesting that the hearing be held in Dolan Springs. On January 6, 2004, Staff
20 filed a Request for Extension of Time. There was no objection to either request.

21 13. By Procedural Order issued January 21, 2004, the hearing was moved to the Dolan
22 Springs Community Center; the hearing date was continued to June 9, 2004; and associated
23 procedural deadlines and the timeclock were extended accordingly.

24 14. On February 6, 2004, the Company filed Proof of Mailing of a notice to its customers
25 of the change in location and date of the hearing.

26 15. By Procedural Order of February 9, 2004, an additional public comment session was
27 set for the evening of March 15, 2004, at Dolan Springs Community Hall, and was held as scheduled.
28 Several customers attended, and public comments were provided for the record.

1 16. On April 16, 2004, Staff filed testimony in this matter that included its analysis of the
 2 rate application and the results of its regulatory audit. In its filing, Staff proposed annual revenues for
 3 the Company of \$335,444, which represents an increase of \$54,244, or 19.29 percent over adjusted
 4 test year revenues of \$281,200. Staff's recommended rates would increase the typical monthly
 5 residential bill at the median usage of 3,342 gallons from \$23.50 to \$27.35, for an increase of \$3.85,
 6 or 16.4 percent, and would increase the monthly residential bill at the average usage of 5,548 gallons
 7 from \$28.69 to \$33.95, for an increase of \$5.26, or 18.3 percent.

8 17. Mt. Tipton's present and proposed rates, and the rates proposed by Staff, are as
 9 follows:

	<u>Present Rates</u>	<u>Proposed Company Rates</u>	<u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
12 5/8" x 3/4" Meter	\$18.00	\$22.50	\$19.00
13 3/4" Meter	25.00	31.25	28.50
14 1" Meter	27.00	33.75	47.50
15 1 1/2" Meter	50.00	62.50	95.00
16 2" Meter	70.00	87.50	152.00
17 3" Meter	90.00	112.50	285.00
18 4" Meter	100.00	125.00	475.00
19 6" Meter	200.00	250.00	950.00
20 8" Meter	300.00	375.00	1,425.00
21 Gallons included in minimum	1,000		0
<u>COMMODITY CHARGE IN EXCESS OF MINIMUM – PER 1,000 GALLONS:</u>			
<u>All meter sizes</u>			
22 From 1,001 gallons to 20,000 gallons	\$1.80		
23 From 20,001 gallons to 40,000 gallons	2.35		
24 Over 40,000 gallons	3.00		
25 Tier one: all meter sizes up to 10,000 gallons		\$2.25	
26 Tier two: all meter sizes from 10,001 gallons to 15,000 gallons		4.50	
27 Tier three: all meter sizes from 15,001 gallons to 20,000 gallons		9.00	
28 Tier four: all meter sizes from 20,001 gallons to 25,000 gallons		13.00	
29 Tier five: all meter sizes from 25,001 gallons to 30,000 gallons		18.00	
30 Tier six: all meter sizes all gallons over 30,000 gallons		22.50	

For 5/8 x 3/4 inch meter size

Tier one: from zero gallons to 4,000 gallons	\$2.45
Tier two: 4,001 gallons to 9,000 gallons	3.20
Tier three: all gallons over 9,000	4.20

For 3/4-inch meter size

Tier one: from zero to 4,000 gallons	\$2.45
Tier two: 4,001 gallons to 15,000 gallons	3.20
Tier three: all gallons over 15,000 gallons	4.20

For One inch meter size

Tier one: from zero gallons to 25,000 gallons	\$3.20
Tier two: all gallons over 25,000 gallons	4.20

For One and One-half inch meter size

Tier one: from zero gallons to 70,000 gallons	\$3.20
Tier two: all gallons over 70,000 gallons	4.20

For Two inch meter size

Tier one: from zero gallons to 125,000 gallons	\$3.20
Tier two: all gallons over 125,000 gallons	4.20

For Three inch meter size

Tier one: from zero gallons to 250,000 gallons	\$3.20
Tier two: all gallons over 250,000 gallons	4.20

For Four inch meter size

Tier one: from zero gallons to 400,000 gallons	\$3.20
Tier two: all gallons over 400,000 gallons	4.20

For Six inch meter size

Tier one: from zero gallons to 825,000 gallons	\$3.20
Tier two: all gallons over 825,000 gallons	4.20

For Eight inch meter size

Tier one: from zero gallons to 1,250,000 gallons	\$3.20
Tier two: all gallons over 1,250,000 gallons	4.20

Bulk Sales Commodity Charge Per 1,000 gallons:

With assistance	\$5.00		
Without assistance	3.08		
Residential use		\$6.25	
All bulk sales			\$4.20

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

5/8" x 3/4" Meter	\$350.00	\$437.50	\$438.00
3/4" Meter	370.00	462.50	462.00
1" Meter	450.00	562.50	562.00
1 1/2" Meter	670.00	837.50	838.00
2" Meter	875.00	1,093.75	1,094.00
3" Meter	1,025.00	1,281.25	1,281.00
4" Meter	2,700.00	3,375.00	3,375.00
6" Meter	3,825.00	4,781.25	4,781.00

1	8" Meter		5,000.00		5,000.00
2	<u>SERVICE CHARGES:</u>				
3	Establishment	\$25.00	\$25.00		\$25.00
	Establishment (After Hours)	40.00	40.00		40.00
4	Reconnection (Delinquent)	40.00	40.00		40.00
	Reconnection (After Hours)	N/A	40.00		40.00
5	Meter Test (If Correct)	40.00	40.00		40.00
6	Meter Reread (If Correct)	10.00	10.00		10.00
	NSF Check Charge	15.00	15.00		15.00
7	Deposit	*	*		*
	Deposit Interest (Per Annum)	6%	*		*
8	Late Pmt Penalty (Per Annum)	10%			N/A
	Deferred Payment (Per Annum)	12%			N/A
9	Deferred Payment (Per Month)	N/A	***		*
10	Late charge (Per Month)	N/A	1.50%		***
	Re-establishment (within 12 months)	**	**		**
11	Re-establishment (after hours)	N/A	**plus \$40.00		N/A
12	Disconnect charge (payable upon requested	N/A	\$5.00 pro-rata		0.00
13	termination of service if no future service at the		plus monthly		
	meter is expected within 60 days of termination)		minimum		
			usage charge		
14	To send delinquent notice	N/A	1.00		0.00
15	New service impact fee	N/A	10% of meter		0.00
16			fee plus		
			\$1,500 per		
17			100 feet		
			mainline ext.		
18	Capital maintenance charge	N/A	2.5% of		0.00
			monthly		
			usage		

19 * Per Commission rule A.A.C. R-14-2-403(B).
 20 ** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).
 21 *** 1.50 % of unpaid monthly balance.

22 18. The Company's application proposed an Original Cost Rate Base ("OCRB") of
 23 \$1,206,717. Staff is recommending an OCRB of \$652,856. The difference between the Company's
 24 and Staff's proposals is the result of several adjustments Staff proposed, for a total reduction of
 25 \$553,861. Staff's proposed adjustments include a decrease to plant in service to reflect plant
 26 additions and retirements not booked by the Company; an increase to accumulated depreciation to
 27 correct for use of incorrect depreciation rates; a reduction to contributions in aid of construction
 28 ("CIAC") to reflect accumulated amortization on the CIAC balance; a decrease in advances in aid of

1 construction ("AIAC") to reflect the actual amount of AIAC; a decrease to reflect the actual amount
2 of customer deposits; a decrease to cash working capital to reflect Staff's recommended reduction in
3 expense; and other adjustments.

4 19. Staff's recommended decrease to plant in service includes the removal from rate base
5 of two fire hydrants, for a reduction of \$1,230. In its Engineering Report and in testimony, Staff
6 recommended removal of the fire hydrants from the Company's rate base because the Company's
7 system cannot provide adequate fire flow. Staff's witness explained that fire department use of the
8 fire hydrants would rapidly deplete system storage. She stated that due to the system's low well
9 yields, system storage recovery time after fire hydrant use would be very long, and that until system
10 recovery was achieved, most customers would have no water service.

11 20. At the hearing, the Company's witness testified that the two fire hydrants referred to
12 by Staff are being used not as fire hydrants, but to provide standpipe service to Mt. Tipton's
13 customers. The Company's witness stated that one of these hydrant/standpipes is located at Highway
14 93, and one is located near the school. Because the hydrants are in use, although as standpipes, they
15 should not be removed from rate base. Until such time that the Company's system can provide
16 adequate fire flow, the hydrants should be clearly marked as not being available for fire department
17 use.

18 21. The Company's witness testified that in addition to the two hydrants/standpipes, it has
19 one coin-operated standpipe, and another metered standpipe located at the Detrital wellsite.

20 22. The Company's witness testified that the Company believes that unauthorized water
21 withdrawals have been made from unsecured hydrant/standpipes after business hours. The Company
22 testified that it plans to lock the hydrant/standpipe located at Highway 93, and restrict its usage to the
23 Company's construction needs, such as line extension construction. The Company plans to continue
24 to allow bulk hauling from the hydrant/standpipe located near the school, but plans to place both a
25 lock and a meter on this hydrant/standpipe, and to require bulk hauling customers to take meter
26 readings each time they withdraw water.

27 23. Staff's witness testified at the hearing that unauthorized withdrawal of water, or
28 customers using water without paying for it, results in revenue losses to the Company, and should be

1 corrected by placing locks and meters on the water sources. He stated that the Company should
 2 receive revenue for all water provided to customers. He also stated that the Company's water losses¹
 3 might be reduced if unauthorized water withdrawals are halted.

4 24. One of the Company's bulk-hauling standpipe customers is Mohave County. The
 5 County purchases water from Mt. Tipton for dust control on County roads in the Dolan Springs area.
 6 The Company's witness testified that when the Company's system storage is low, it allows the
 7 County road-maintenance trucks to draw water from the Detrital Well standpipe at no charge. The
 8 Company stated that it believed it could not charge for water withdrawn from the Detrital Well
 9 standpipe because this Company water source is located outside its CC&N territory. The Company's
 10 witness testified that the Company had filed an application to extend its CC&N to include the Detrital
 11 Well area, but that the application was found insufficient, and the Company had eventually requested
 12 that the application be withdrawn.²

13 25. Mt. Tipton leases the Detrital Well, which is located approximately 8.5 miles to the
 14 west of Mt. Tipton's service area, from the Bureau of Land Management ("BLM"). According to
 15 Staff's Engineering Report, the Detrital wellsite includes a 900-foot deep well with an 8-inch casing,
 16 a 50 HP pump, a 3-inch meter, a 125 KV generator and two 3-inch backflow prevention devices, all
 17 of which was completed in 1998. Staff stated that the wellsite also includes a booster station and a
 18 200,000 gallon storage tank that have been completed since 1998 and are currently in use.

19 26. The Company should charge for all water withdrawn from all its standpipes,
 20 regardless of the location of the standpipe, and we will order the Company to immediately begin
 21 doing so. We will order the Company to file with the Commission, by October 15, 2004, certification
 22 that all its standpipes have been secured and metered; or in the alternative, if all the standpipes have
 23 not been secured and metered as of that date, shall instead make a filing explaining why all the
 24 standpipes have not been secured and metered as of that date, and shall include a copy of a plan, with
 25 projected completion dates, to secure and meter all its standpipes.

26 27. The Company did not object to Staff's proposed rate base adjustments. With the

27 ¹ Staff's Engineering Report states that the level of non-account water was 19.42 percent in the test year, and made
 several water loss reduction recommendations.

28 ² See Docket No. W-02105A-03-0658, which was administratively closed on March 2, 2004.

1 exception of the removal of \$1,230 from rate base for the hydrant/standpipes, we find Staff's
2 adjustments to be reasonable and will adopt them, for an OCRB of \$654,086.

3 28. The Company did not file Reconstruction Cost New Less Depreciation Rate Base
4 schedules. Therefore, the Company's fair value rate base ("FVRB") is \$654,086.

5 29. The Company's application as filed included total test year operating revenues of
6 \$295,198. Staff proposed an adjustment increasing metered water sales by \$7,002 to reflect the
7 revenue produced by the Company's bill counts, and an adjustment decreasing revenues by \$21,000
8 to remove Off-Site Facilities Hook-Up Fees that the Company improperly booked as revenues, for
9 total test year operating revenues of \$281,200. The Company did not object to the proposed
10 adjustments. We find Staff's adjustments to be reasonable, and we will adopt \$281,200 as the
11 Company's test year operating revenues.

12 30. The Company's application as filed included total operating expenses of \$387,749.
13 Staff proposed several adjustments to operating expenses that result in a net reduction of \$139,787 to
14 the Company's proposed test year operating expense level. Staff's proposed adjustments include the
15 removal of non-recurring expenses; the reclassification of items from expenses to plant in service; the
16 normalization of repairs and maintenance expense using the average repair expenses for the entire
17 system over the past six years; and pro forma adjustments to reflect known and measurable changes
18 to test year expenses. Staff also proposed an adjustment to depreciation expense using its
19 recommended depreciation rates, and an adjustment to property tax expense using the Commission's
20 methodology of computing property tax expense. The Company did not object to Staff's proposed
21 operating expense adjustments. The adjustments are reasonable and we will adopt them, for a test
22 year operating expense level of \$247,962.

23 31. Based on results for the test year ended December 31, 2002, with the adjustments
24 adopted herein, Mt. Tipton realized an operating income of \$33,239 on a FVRB of \$654,086, for a
25 rate of return of 5.08 percent.

26 32. Based on its analysis, Staff recommended a revenue level of \$335,444 and operating
27 income of \$87,483. Staff's witness testified that its recommended revenues take into consideration
28 sufficient operating income to pay the Company's normalized expenses, including debt service

1 payments, and additional cash flow for unforeseen contingencies. Staff's recommended revenues
2 result in a rate of return of 13.37 percent on the Company's FVRB of \$654,086.

3 33. We find Staff's revenue recommendations reasonable and will adopt them.

4 34. Staff recommended that its proposed rates and charges be approved, and also
5 recommended the following:

- 6 1) That the Company be ordered to use the depreciation rates as shown in
7 Exhibit 6 of Staff's Engineering Report;
- 8 2) That a provision be included in the Company's tariff to allow for the flow-
9 through of all appropriate state and local taxes as provided in A.A.C. R14-2-
10 409(D)(5);
- 11 3) That the Company be ordered to notify its customers of the rates and charges
12 approved by the Commission and the effective date by means of an insert in
13 its next regular monthly billing following a Decision in this matter, and file a
14 copy of the notice with the Commission's Docket Control Center within 60
15 days of the effective date of this Decision; and
- 16 4) That the Company be ordered to bring its books and records into compliance
17 with the NARUC system of accounts to include listing plant in service by
18 individual account number and reflecting the correct plant balances,
19 accumulated depreciation, and other general ledger account amounts to
20 comply with the approved amounts in this Decision, and that in order to
21 demonstrate compliance, the Company should be required to docket copies of
22 its general ledger, including all corrections, within 90 days of the effective
23 date of this Decision.

24 35. Staff also made the following recommendations in regard to the Company's test-year
25 non-account water, which was 19.42 percent:

- 26 1) That the Company be required to reduce its water loss to less than 10 percent
27 within 18 months of the effective date of this Decision. Staff further
28 recommended that the Company be required to file quarterly reports with the
Director of the Utilities Division that indicate the quantity of water pumped
and sold each month during the quarter and the efforts made to reduce water
loss, such as the number of leaks repaired, meters replaced, pipeline flushing,
etc. Staff recommended that the quarterly report should be based on the
calendar year, with the first report being filed within 120 days of the effective
date of this Decision, and that Staff may approve an end to the reporting if the
Company shows that average water loss for two consecutive quarters is below
10 percent;
- 2) That if after 18 months of the effective date of this Decision, the Company has
failed to reduce its non-account water below 15 percent, that any new main
extension agreements submitted by the Company should be denied until the

1 Company shows that average water loss for two consecutive quarters is below
2 15 percent; and

- 3 3) That if after 18 months of the effective date of this Decision, the Company
4 finds that water loss can only be reduced to less than 15 percent, but not less
5 than 10 percent, the Company should be required to submit, by December 31,
6 2005, or prior to its next rate case, whichever comes first, a detailed cost
7 analysis and explanation demonstrating why water loss reduction to less than
8 10 percent is not cost effective.

9 36. The application included a proposal that the Company be allowed to increase its Off-
10 Site Facilities Hook-Up Fee charges for a 5/8" x 3/4" Meter to \$800. Staff recommended that the
11 Company establish a separate, interest-earning bank account for hook-up fees, and that it be allowed
12 to collect Off-Site Facilities Hook-Up Fees according to the following schedule:

13 **Off-Site Facilities Hook-Up Fee Schedule**

14 5/8" x 3/4" Meter	15 \$800
16 3/4" Meter	17 840
18 1" Meter	19 1,400
20 1 1/2" Meter	21 2,800
22 2" Meter	23 4,480
24 3" Meter	25 8,400
26 4" Meter	27 14,000
28 6" Meter	28,000

37. In conjunction with its recommendation that the Company be allowed to collect Off-
Site Facilities Hook-Up Fees, Staff recommended that the Company be required to submit, by the
15th of the month following the end of each calendar quarter, quarterly reports to the Commission's
Docket Control Center that include the following facts:

- 1) The name of each person/entity charged a hook-up fee and the amount charged;
- 2) The balance of the hook-up fee account and interest earned on the account;
- 3) A detailed list of plant items purchased from the hook-up fee account, along with the purchase amounts;
- 4) Whether the Company has or has not collected any hook-up fees during the past quarter; and

1 5) If there are no hook-ups during a quarter then a quarterly report will be submitted
2 reflecting this fact.

3 38. In Decision No. 60988 (July 15, 1998), the Commission approved Off-Site Facilities
4 Hook-Up Fees for the purpose of enabling Mt. Tipton to service the \$1,200,000 debt necessary to
5 integrate the Detrital Well into Mt. Tipton's system. The Detrital Well produces approximately 253
6 gallons per minute, which is a greater yield than all the Company's other water sources combined.

7 39. In Decision No. 64287 (December 28, 2001), the Commission approved Mt. Tipton's
8 request to cancel the \$1,200,000 financing authority granted in Decision No. 60988; approved Mt.
9 Tipton's request for authority to instead finance the acquisition of the assets of the adjacent Dolan
10 Springs Water Company; approved an \$880,000 WIFA loan of for the purpose of that acquisition;
11 left the Off-Site Facilities Hook-Up Fee in effect until its re-evaluation in Mt. Tipton's next rate case;
12 ordered Mt. Tipton to use the monies collected from the Off-Site Facilities Hook-Up Fee for capital
13 improvements required to serve new customers; and ordered the Company to continue to file an
14 annual Hook-Up Fee Report to the Commission's Utilities Division Director.

15 40. According to the Company's rate filing, the Company used collected Off-Site
16 Facilities Hook-Up Fees in the amount of \$21,000 to satisfy debt obligations arising from its
17 acquisition of the assets of the adjacent Dolan Springs Water Company. As noted above, the
18 Company's improper booking of the collected Off-Site Facilities Hook-Up Fees as revenue has been
19 adjusted in our determination of test year revenues herein.

20 41. At the hearing, the Company requested a waiver from Staff's recommendation to place
21 Off-Site Facilities Hook-Up Fees in a separate account. The Company's request was twofold; it
22 requested a waiver for those fees that the Company has collected and already spent, and also
23 requested authority to continue using Off-Site Facilities Hook-Up Fees as revenues in the future.

24 42. Staff recommended denial of the Company's request for authority to continue using
25 Off-Site Facilities Hook-Up Fees as revenues. Staff further recommended that, based on the
26 circumstances of this case, the Company not be required to replace the already-expended Hook-Up in
27 its Hook-Up Fee account. Staff stated that its recommendation is based in part on the fact that Mt.
28 Tipton is a non-profit Company, and that if adopted, its recommendation should not be used as

1 precedent in future cases.

2 43. The Off-Site Facilities Hook-Up Fees were originally approved for the purpose of
3 funding the costs of integrating the high-producing Detrital Well into Mt. Tipton's system. Staff's
4 Engineering Report stated that the Detrital Well should be connected to Mt. Tipton's system to meet
5 system peak demand, especially during drought conditions, and concluded that this improvement
6 would be beneficial in ensuring that an adequate source of water is available to the system. Staff did
7 not recommend any change in the purpose of the existing Off-Site Facilities Hook-Up Fee.

8 44. We agree with Staff's recommendations, and will not approve the Company's request
9 to use Off-Site Facilities Hook-Up Fees as revenues. The purpose of Off-Site Facilities Hook-Up
10 Fees is strictly for the funding of capital improvements, and not for payment of operating expenses.
11 The revenue levels adopted herein are adequate to meet the Company's operating expenses and debt
12 service requirements, in addition to providing additional cash flow to meet unforeseen contingencies,
13 so that on a going-forward basis, it is not necessary for the Company to expend collected Hook-Up
14 Fees to service its existing debt. We will not require the Company to replace the already-expended
15 Off-Site Facilities Hook-Up Fees in its Hook-Up Fee Account, as those funds were used to satisfy
16 debt obligations arising from the Company's acquisition of the assets of the adjacent Dolan Springs
17 Water Company. We will require the Company to file an Off-Site Facilities Hook-Up Fee Tariff that
18 conforms with the tariff attached hereto as Exhibit A, and to abide by the terms of the filed tariff
19 regarding the collection, disposition, and expenditure of Off-Site Facilities Hook-Up Fees.

20 45. The Company is current on the repayment of its WIFA loans.

21 46. The Company has become current on its 2002 Mohave County franchise taxes and
22 property taxes. The Company has a payment schedule in place to bring its 2003 Mohave County
23 franchise tax and property tax arrearages current.

24 47. The Staff Report states that the most recent lab analysis by the Company indicated that
25 the arsenic levels in the Company's supply are below the new arsenic maximum contaminant level
26 ("MCL").

27 48. The Staff Report states that the Arizona Department of Environmental Quality
28 ("ADEQ") has determined that the Company is currently delivering water that meets the water

1 quality standards required by Title 18, Chapter 4 of the Arizona Administrative Code.

2 49. The Company is not located in any Arizona Department of Water Resources
3 (“ADWR”) Active Management Area (“AMA”).

4 50. Decision No. 66732, which granted the Company’s request for emergency rate relief,
5 ordered the Company to have a performance audit performed, evaluate its findings and seek
6 appropriate relief action if necessary. Mr. Jay Spector, Director of WIFA since September 2003,
7 testified that WIFA is assisting Mt. Tipton in performing this audit. Mr. Spector stated that the audit
8 was scheduled to begin on June 21, 2004, commencing with a four-day visit to the Company’s
9 offices, and would conclude with a written report to the Company following the auditors’ analysis.
10 The Company’s witness testified that the Company planned to share the results of the audit with
11 Staff.

12 51. Public comment at the hearing expressed concern with whether approved rates will
13 take into account the income levels of Mt. Tipton’s ratepayers. The Company’s witness testified that
14 the tiered rate structure recommended by Staff will encourage conservation without penalizing the
15 ratepayers, 85 percent of whom use less than 10,000 gallons of water per month. Staff’s witness
16 testified that its rate design recommendations took into account the fact that Mt. Tipton is located in a
17 low-income area, that customers’ rates will correspond to their usage, and that Staff’s proposed rate
18 design encourages conservation.

19 **CONCLUSIONS OF LAW**

20
21 1. Mt. Tipton is a public service corporation within the meaning of Article XV of the
22 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

23 2. The Commission has jurisdiction over the Company and the subject matter of the
24 application.

25 3. Notice of the application was given in accordance with the law.

26 4. Staff’s recommended rates and charges are reasonable and should be approved.
27
28

1 5. Staff's recommendations, as set forth in Findings of Fact Nos. 34, 35, 36, and 37, are
 2 reasonable and should be adopted.

3 **ORDER**

4 IT IS THEREFORE ORDERED that Mount Tipton Water Company, Inc. is hereby directed
 5 to file on or before September 1, 2004, revised rate schedules setting forth the following rates and
 6 charges:

7
 8 **MONTHLY USAGE CHARGE:**

9	5/8" x 3/4" Meter	\$19.00
10	3/4" Meter	28.50
11	1" Meter	47.50
12	1 1/2" Meter	95.00
13	2" Meter	152.00
14	3" Meter	285.00
	4" Meter	475.00
	6" Meter	950.00
	8" Meter	1,425.00

15 **COMMODITY CHARGE PER 1,000 GALLONS:**

16 **For 5/8 x 3/4 inch meter size**

17	Tier one: from zero gallons to 4,000 gallons	\$2.45
18	Tier two: 4,001 gallons to 9,000 gallons	3.20
	Tier three: all gallons over 9,000 gallons	4.20

19 **For 3/4-inch meter size**

20	Tier one: from zero to 4,000 gallons	\$2.45
	Tier two: 4,001 gallons to 15,000 gallons	3.20
	Tier three: all gallons over 15,000 gallons	4.20

21 **For One inch meter size**

22	Tier one: from zero gallons to 25,000 gallons	\$3.20
	Tier two: all gallons over 25,000 gallons	4.20

23 **For One and One-half inch meter size**

24	Tier one: from zero gallons to 70,000 gallons	\$3.20
	Tier two: all gallons over 70,000 gallons	4.20

25 **For Two inch meter size**

26	Tier one: from zero gallons to 125,000 gallons	\$3.20
27	Tier two: all gallons over 125,000 gallons	4.20

28 **For Three inch meter size**

	Tier one: from zero gallons to 250,000 gallons	\$3.20
	Tier two: all gallons over 250,000 gallons	4.20

For Four inch meter size

	Tier one: from zero gallons to 400,000 gallons	\$3.20
--	--	--------

1 Tier two: all gallons over 400,000 gallons 4.20

2 **For Six inch meter size**

3 Tier one: from zero gallons to 825,000 gallons \$3.20

4 Tier two: all gallons over 825,000 gallons 4.20

5 **For Eight inch meter size**

6 Tier one: from zero gallons to 1,250,000 gallons \$3.20

7 Tier two: all gallons over 1,250,000 gallons 4.20

8 **Bulk Sales Commodity Charge:**

9 Per 1,000 gallons - All bulk sales \$4.20

10 **SERVICE LINE AND METER INSTALLATION CHARGES:**

11 (Refundable pursuant to A.A.C. R14-2-405)

12 5/8" x 3/4" Meter \$438.00

13 3/4" Meter 462.00

14 1" Meter 562.00

15 1 1/2" Meter 838.00

16 2" Meter 1,094.00

17 3" Meter 1,281.00

18 4" Meter 3,375.00

19 6" Meter 4,781.00

20 8" Meter 5,000.00

21 **SERVICE CHARGES:**

22 Establishment \$25.00

23 Establishment (After Hours) 40.00

24 Reconnection (Delinquent) 40.00

25 Reconnection (After Hours) 40.00

26 Meter Test (If Correct) 40.00

27 Meter Reread (If Correct) 10.00

28 NSF Check Charge 15.00

Deposit *

Deposit Interest (Per Annum) *

Deferred Payment (Per Month) **

Late charge (Per Month) **

Re-establishment (within 12 months) ***

* Per Commission rule A.A.C. R-14-2-403(B).

** 1.50 % of unpaid monthly balance.

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

IT IS FURTHER ORDERED that the rates and charges authorized herein shall be effective for all service rendered on and after September 1, 2004.

1 IT IS FURTHER ORDERED that Mount Tipton Water Company, Inc. shall notify its
2 customers of the above rates and charges by means of an insert in its next regularly scheduled billing,
3 which insert shall have been reviewed and approved by the Commission's Utilities Division Staff,
4 and shall file a copy of the notice with the Commission's Docket Control Center within 60 days.

5 IT IS FURTHER ORDERED that Mount Tipton Water Company, Inc. shall include a
6 provision in its tariff to allow for the flow-through of all appropriate state and local taxes as provided
7 by A.A.C. R14-2-409(D)(5).

8 IT IS FURTHER ORDERED that until such time that its water system has adequate capacity
9 to provide fire flow protection, Mount Tipton Water Company, Inc. shall clearly mark its two fire
10 hydrants as not available for fire department use.

11 IT IS FURTHER ORDERED that Mount Tipton Water Company, Inc. shall secure and meter
12 all its standpipes, and shall charge its tariffed rates for all standpipe usage, including its Detrital Well
13 standpipe.

14 IT IS FURTHER ORDERED that Mount Tipton Water Company, Inc. shall file with the
15 Commission, by October 15, 2004, certification that all its standpipes have been secured and metered;
16 or in the alternative, if all the standpipes have not been secured and metered as of that date, shall
17 instead make a filing explaining why all the standpipes have not been secured and metered as of that
18 date, and shall include a copy of a plan, with projected completion dates, to secure and meter all its
19 standpipes.

20 IT IS FURTHER ORDERED that Mount Tipton Water Company, Inc. shall file with the
21 Commission, on or before September 1, 2004, an Off-Site Water Facilities Hook-Up Fee Tariff
22 consistent with Exhibit A attached to this Decision.

23 IT IS FURTHER ORDERED that Mount Tipton Water Company, Inc. shall place all funds
24 collected under the Off-Site Water Facilities Hook-Up Fee Tariff approved herein in a separate,
25 interest-bearing trust account, and shall use those funds only as described in the approved tariff.

26 IT IS FURTHER ORDERED that Mount Tipton Water Company, Inc. shall submit quarterly
27 reports to the Commission's Docket Control Center, by the 15th of the month following the end of
28 each calendar quarter, which reports shall include the following facts: 1) The balance of the Off-Site

1 Water Facilities Hook-Up Fee trust account and interest earned on the trust account; 2) Whether the
2 Company has or has not collected any Off-Site Water Facilities Hook-Up Fees during the past
3 quarter; 3) The name of each person/entity charged an Off-Site Water Facilities Hook-Up Fee and
4 the amount charged; and 4) A detailed list of plant items purchased from the Off-Site Water
5 Facilities Hook-Up Fee trust account, along with the purchase amounts.

6 IT IS FURTHER ORDERED that the Commission’s Utilities Division Staff shall monitor the
7 quarterly Off-Site Water Facilities Hook-Up Fee filings ordered herein and shall notify the
8 Commission immediately if collected Off-Site Water Facilities Hook-Up Fees are being used for
9 purposes other than those described in the approved tariff.

10 IT IS FURTHER ORDERED that the recommendations of the Commission’s Utilities
11 Division Staff regarding water loss monitoring, water loss reduction, the filing of water loss reports,
12 and main extension restrictions as set forth in Findings of Fact No. 35 above, are hereby adopted, and
13 that Mount Tipton Water Company, Inc. shall comply with the water loss monitoring, reduction,
14 filing requirements, and main extension restrictions set forth in those recommendations.

15 IT IS FURTHER ORDERED that Mount Tipton Water Company, Inc. shall use the
16 depreciation rates as shown on the attached Exhibit B.

17 IT IS FURTHER ORDERED that Mount Tipton Water Company, Inc. shall file, by October
18 29, 2004, with the Commission’s Docket Control, a copy of its general ledger, including all
19 corrections, which demonstrate that it has brought its books and records into compliance with the
20 NARUC Uniform System of Accounts, including listing plant in service by individual account
21 number and reflecting correct plant balances, accumulated depreciation, and other general ledger
22 account amounts, in accordance with the adjustments adopted herein.

23 ...
24 ...
25 ...
26 ...
27 ...
28 ...

1 IT IS FURTHER ORDERED that the requirement in Decision No. 66732 that Mount Tipton
2 Water Company, Inc. have a performance audit performed, evaluate its findings and seek appropriate
3 relief action if necessary, shall remain in effect.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
6
7

8 CHAIRMAN COMMISSIONER COMMISSIONER

9
10 COMMISSIONER COMMISSIONER

11 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
12 Secretary of the Arizona Corporation Commission, have
13 hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this ____ day of _____, 2004.

16 BRIAN C. McNEIL
EXECUTIVE SECRETARY

17 DISSENT _____

18 DISSENT _____
19
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24
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26
27
28

1 SERVICE LIST FOR: MOUNT TIPTON WATER COMPANY, INC.

2 DOCKET NO.: W-02015A-03-0303

3
4 Mount Tipton Water Company, Inc.
5 P.O. Box 38
6 15695 Ironwood Drive
7 Dolan Springs, AZ 86441

8 Christopher Kempley, Chief Counsel
9 Legal Division
10 ARIZONA CORPORATION COMMISSION
11 1200 W. Washington Street
12 Phoenix, Arizona 85007

13 Ernest Johnson, Director
14 Utilities Division
15 ARIZONA CORPORATION COMMISSION
16 1200 W. Washington Street
17 Phoenix, Arizona 85007

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EXHIBIT A

TARIFF SCHEDULE

UTILITY: MOUNT TIPTON WATER COMPANY, INC. SHEET NO. 1
DOCKET NO.: W-02105A-03-0303
DECISION NO.: _____
EFFECTIVE DATE: _____

OFF-SITE WATER FACILITIES HOOK-UP FEE

I. Purpose and Applicability

The purpose of the hook-up fees payable to Mount Tipton Water Company, Inc. (“the Company”) pursuant to this tariff is to equitably apportion the costs of constructing additional facilities to provide water production, storage, and pressure among all new service connections.

These charges are applicable to all new service connections established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to the Company’s establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R14-2-401 of the Arizona Corporation Commission’s rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

“Applicant” means any party entering into an agreement with Company for the installation of water facilities to serve new service connections.

“Company” means Mount Tipton Water Company, Inc., an Arizona non-profit corporation.

“Main Extension Agreement” means any agreement whereby an Applicant agrees to advance the costs of the installation of water facilities to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Arizona Corporation Commission (same as line extension agreement).

“Off-Site Facilities” means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Off-Site Facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation, if these facilities are not for the exclusive use of the Applicant and these facilities will benefit the entire water system.

“Service Connection” means and includes all service connections for single-family residential, commercial, industrial, or other usages, regardless of meter size.

DECISION NO. _____

UTILITY: MOUNT TIPTON WATER COMPANY, INC.
DOCKET NO.: W-02105A-03-0303
DECISION NO.: _____
EFFECTIVE DATE: _____

SHEET NO. 2

III. Off-Site Facilities Hook-Up Fee Charges

Each new service connection shall pay the total Off-Site Facilities Hook Up Fee, derived from the following table:

OFF-SITE FACILITIES HOOK-UP FEE TABLE	
Meter Size	Total Fee
5/8" x 3/4"	\$ 800
3/4"	840
1"	1,400
1 1/2"	2,800
2"	4,480
3"	8,400
4"	14,000
6" or larger	28,000

IV. Terms and Conditions

- (A) Assessment of One Time Hook-Up Fee Charge: The Hook-Up Fee may be assessed only once per service connection or lot within a platted subdivision (similar to meter and service line installation charges). However, this provision does not exempt any newly created parcel(s) which are the result of further subdivision or a lot or land parcel, and which do not have a service connection, from assessment of a Hook-Up Fee.
- (B) Use of Off-Site Hook-Up Fee: Hook-Up Fees may only be used to pay for the capital items of Off-Site Facilities, or for repayment of loans obtained for installation of Off-Site Facilities. Off-Site Facilities Hook-Up fees shall not be used for repairs, maintenance, plant replacements, or operational purposes.
- (C) Time of Payment:
- (1) In the event that the Applicant is required to enter into a main extension agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R14-2-406(B), payment of the charges required hereunder shall be made by Applicant within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the main extension agreement in accordance with R14-2-406(M).
 - (2) In the event that the Applicant is not required to enter into a main extension agreement, the charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

DECISION NO. _____

UTILITY: MOUNT TIPTON WATER COMPANY, INC.
DOCKET NO.: W-02105A-03-0303
DECISION NO.: _____
EFFECTIVE DATE: _____

SHEET NO. 3

- (D) Failure to Pay Charges; Delinquent Payments: Under no circumstances will the Company set a meter or otherwise allow service to be established if the Applicant has not paid in full all charges as provided by this Off-Site Facilities Hook-Up Fee Tariff.
- (E) Off-Site Facilities Hook-Up Fee Non-Refundable: The amounts collected by the Company pursuant to this tariff shall be non-refundable contributions in aid of construction.
- (F) Use of Charges Received: All funds collected by the Company as Off-Site Facilities Hook-Up Fees, shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of Off-Site Facilities, including repayment of loans obtained for the installation of Off-Site Facilities that will benefit the entire water system.
- (G) Off-Site Facilities Hook-Up Fees In Addition to Other Charges: The Off-Site Facilities Hook-Up Fees shall be in addition to any costs associated with a main extension agreement for on-site facilities, and are in addition to the amounts to be advanced pursuant to charges authorized under other sections of this tariff.
- (H) Trust Account: All funds collected by the Company as Off-Site Facilities Hook-Up Fees shall be deposited into a separated interest bearing trust account and used solely for the purposes of paying for the costs of Off-Site Facilities, including repayment of loans obtained for the installation of Off-Site Facilities.
- (I) Disposition of Excess Funds: After all necessary and desirable Off-Site Facilities are constructed utilizing funds collected pursuant to the Off-Site Facilities Hook Up Fee or the Off-Site Facilities Hook-Up Fee has been terminated by order of the Arizona Corporation Commission (Commission), any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.
- (J) Fire Flow Requirements: In the event the Applicant has fire flow requirements that require additional facilities beyond those facilities whose costs were generally provided, the Company may require the Applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the Off-Site Facilities Hook-Up Fee.

Effective Date: _____

Approved for Filing in Compliance with
Decision No. _____

DECISION NO. _____

EXHIBIT B

Water Depreciation Rates

Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----