



COMMISSIONER
MARC SPITZER
COMMISSIONER

OPEN MEETING ITEM RECEIVED

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BRIAN C. McNEIL
EXECUTIVE SECRETARY

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ARIZONA CORPORATION COMMISSION

2001 MAR 12 A 11: 12

DATE: March 12, 2001
DOCKET NO: W-02164A-00-0928
TO ALL PARTIES:

ARIZONA CORPORATION COMMISSION
DOCKETED
MAR 12 2001

DOCKETED BY

Enclosed please find the recommendation of Hearing Officer Marc E. Stern. The recommendation has been filed in the form of an Order on:

MORRISTOWN WATER COMPANY
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Hearing Officer by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

MARCH 21, 2001

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

MARCH ~~27~~, 2001 AND MARCH ~~28~~, 2001

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
MORRISTOWN WATER COMPANY, INC. FOR A
PERMANENT RATE INCREASE.

DOCKET NO. W-02164A-00-0928

DECISION NO. _____

ORDER

Open Meeting
March 27 and 28, 2001
Phoenix, Arizona

BY THE COMMISSION:

On November 13, 2000, Morrystown Water Company, Inc. ("Company" or "Applicant") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase. On November 27, 2000, Applicant amended its application.

On November 30, 2000, the Commission's Utilities Division ("Staff") filed a notice that the rate application had met the sufficiency requirement of A.A.C. R14-2-103.

Applicant provided notice to its customers of the application for a permanent rate increase on November 10, 2000. In response thereto, the Commission has not received any protests in opposition to the requested increase.

On February 14, 2001, Staff filed its Staff Report, recommending that the rates proposed by Staff be approved without a hearing.

* * * * *

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

FINDINGS OF FACT

1. Applicant is an Arizona corporation engaged in the business of providing water service to the public in an area approximately 35 miles northwest of Phoenix, Maricopa County,

1 Arizona pursuant to authority granted by the Commission in Decision No. 44820 (November 27,
2 1974).

3 2. The Company's present rates and charges for water service were approved in Decision
4 No. 58504 (January 13, 1994).

5 3. On November 13, 2000, the Company filed with the Commission a rate application
6 requesting authority to increase its rates and charges. On November 27, 2000, the Company
7 amended its application.

8 4. On November 30, 2000, Staff filed notice that the rate application met the sufficiency
9 requirements of A.A.C. R14-2-103.

10 5. During the test year ended December 31, 1999 ("TY"), Applicant served 48 customers
11 who are primarily provided service by means of 5/8 x 3/4 inch meters.

12 6. Average and median water usage for the Company during the TY were 6,302 and
13 3,674 gallons per month, respectively.

14 7. On November 10, 2000, Applicant notified its customers of the proposed rate increase,
15 and in response thereto, the Commission has not received any protests.

16 8. Staff conducted an investigation of Applicant's proposed rates and charges, and in the
17 Staff Report filed February 14, 2001, recommended that its proposed rates be approved without a
18 hearing.

19 9. The rates and charges for Applicant at present, as proposed in the application, and as
20 recommended by Staff are as follows:

	Present Rates	Proposed Rates	
		Company	Staff
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$13.00	\$20.00	\$16.00
3/4" Meter	17.25	27.00	24.00
1" Meter	18.50	28.00	36.00
1 1/2" Meter	20.00	31.00	54.00
2" Meter	24.00	37.00	81.00
3" Meter	48.00	74.00	121.50
4" Meter	96.00	148.00	182.25
6" Meter	192.00	296.00	273.38

1	Gallons Included in Monthly Minimum	1,000	0	0
2	Gallage Charge - Per 1,000 Gallons:			
3	0 to 1,000 gallons	0.00	\$2.50	\$2.20
3	1001 to 5,000 gallons	2.20	2.50	2.20
4	5001 to 10,000 gallons	2.20	3.50	2.20
4	10001 to 20,000 gallons	2.20	4.00	2.20
5	<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>			
6	(Refundable pursuant to A.A.C. R14-2-405)			
7	5/8" x 3/4" Meter	\$315.00	\$315.00	\$375.00
7	3/4" Meter	350.00	350.00	435.00
8	1" Meter	385.00	385.00	510.00
8	1 1/2" Meter	575.00	575.00	740.00
9	2" Meter	950.00	950.00	1,300.00
10	3" Meter	1,175.00	1,175.00	1,855.00
10	4" Meter	1,950.00	1,950.00	2,870.00
11	6" Meter	3,825.00	3,825.00	5,375.00
12	<u>SERVICE CHARGE:</u>			
12	Establishment	\$15.00	\$15.00	\$15.00
13	Establishment (After Hours)	30.00	30.00	30.00
13	Reconnection (Delinquent)	30.00	30.00	30.00
14	Meter Test (If Correct)	40.00	40.00	40.00
15	Deposit	0.00	0.00	0.00
15	Deposit Interest	0.00%	0.00%	*
16	Reestablishment (Within 12 Months)	0.00	**	**
16	NSF Check	15.00	15.00	15.00
17	Deferred Payment (per Month)	1.50%	1.50%	1.50%
17	Meter Reread (If Correct)	10.00	10.00	10.00
18	<u>Monthly Service Charge for Fire Sprinkler:</u>			
19	4" or Smaller	\$0.00	\$0.00	***
20	6"	0.00	0.00	***
20	8"	0.00	0.00	***
21	10"	0.00	0.00	***
21	Larger than 10"	0.00	0.00	***

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

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

*** 1% of Monthly Minimum for a Comparable Size Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct for the primary water service line.

1 10. Pursuant to the Staff Report, Applicant's fair value rate base ("FVRB") is determined
2 to be \$11,285, which is the same as its original cost rate base.¹

3 11. Applicant's present rates and charges produced adjusted operating revenues of
4 \$16,075² and adjusted operating expenses of \$16,299 which resulted in an operating loss of \$224 for
5 the TY.

6 12. The rates and charges Applicant proposed would produce operating revenues of
7 \$22,430 and adjusted operating expenses of \$16,409, resulting in net operating income of \$6,021 for
8 a 50.92 percent rate of return on FVRB.

9 13. The rates and charges Staff recommended would produce operating revenues of
10 \$21,611 and adjusted operating expenses of \$16,409 resulting in net operating income of \$5,202 for a
11 43.99 percent rate of return on FVRB.

12 14. Staff's recommendation increases the Company's revenues by \$5,536 over
13 Applicant's adjusted TY revenues.

14 15. Applicant's proposed rates would increase the average monthly customer bill by 47.6
15 percent from \$24.66 to \$36.40, and the median monthly customer bill by 54.6 percent from \$18.88 to
16 \$29.18.

17 16. Staff's recommended rates would increase the average monthly customer bill by 21.1
18 percent, from \$24.66 to \$29.86, and the median monthly customer bill by 27.5 percent, from \$18.88
19 to \$24.08.

20 17. Staff believes that its recommended rates should amply provide Applicant with the
21 necessary operating income to insure viable operations in the future, including financing long-term
22 debt for certain improvements described hereinafter.

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26 ¹ Staff's \$6,341 reduction to FVRB was primarily due to Staff increasing Applicant's plant advance account for meter
deposits and for Contributions in Aid of Construction ("CIAC") due to funds collected from customers for an
27 unauthorized surcharge.

28 ² Staff reduced Applicant's claimed TY operating income by \$5,175 after reclassifying \$3,590 collected during the TY
from customers for the unauthorized surcharge and \$1,585 collected for meter deposits which was reclassified to the
Company's plant advance account.

1 18. Staff has verified that Applicant is current on its property tax payments to Maricopa
2 County and that the Company is also current with its payment of sales taxes to the Arizona
3 Department of Revenue.

4 19. Staff is unable to verify that Applicant is in compliance with respect to its water
5 quality because, according to the Maricopa County Department of Environmental Services
6 ("MCDES"), Applicant has failed to submit eleven monthly bacteria sample results in the last three
7 years, has major plant deficiencies and is not monitoring some chemicals. MCDES cannot state that
8 Applicant's water has no maximum contaminant level violations ("MCLs") and that its water meets
9 the water quality standards of the Safe Drinking Water Act ("SDWA").

10 20. During its review of Applicant's records, Staff learned that in 1998 the homeowners
11 association voted to fund the replacement of Applicant's rusting 20,000 gallon storage tank and
12 assess the association's members a \$10 surcharge per customer per month, to end in June 1999. This
13 action was taken without Commission authorization and Applicant had collected \$5,790³ when the
14 surcharge automatically ended in June.

15 21. Staff believes that the unauthorized surcharge fund is inadequate to replace the tank
16 and that the surcharge fund should be supplemented with additional long-term financing. Staff
17 believes that such financing should be sought from the Water Infrastructure Finance Authority
18 ("WIFA") to fund the tank replacement and other necessary improvements, and that the Applicant
19 should seek financing approval from the Commission.

20 22. According to Staff, although Applicant appears to maintain its books and records in
21 accordance with the National Association of Regulatory Commissioners ("NARUC") Uniform
22 System Accounts, it needs to fully implement the NARUC accounting instructions to maintain its
23 books accurately.

24 23. Staff's proposed rates and charges are reasonable and should be adopted as should the
25 following additional Staff recommendations:

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28 ³ This sum represents the \$3,590 collected from the unauthorized surcharge during the TY and \$2,200 collected outside of
the TY during 1998 when the surcharge was initiated.

- 1 • that the Company shall establish an interest bearing account and deposit the
2 unauthorized surcharge funds totaling \$5,970 which is to be used solely for the
3 replacement of the 20,000-gallon storage tank;
- 4 • that the Company shall seek approval prior to the implementation of charges
5 not consistent with the Commission's approved tariffs;
- 6 • that the Company shall request financing authority from the Commission to
7 fund the balance of the estimated costs of system repairs including the
8 replacement of the 20,000-gallon storage tank;
- 9 • that the Company shall remove a cottonwood tree from its existing location to
10 an area outside the wellsite by December 31, 2001 as discussed in the Staff
11 Report;
- 12 • that the Company shall sandblast its 2,000-gallon pressure tank to remove rust
13 and repaint it by October 31, 2001;
- 14 • that the Company shall replace its 20,000-gallon storage tank by December 31,
15 2001;
- 16 • that any rate increase approved hereinafter shall not become effective until the
17 first day of the month following the Company filing, with the Director of the
18 Utilities Division, documentation from MCDES or ADEQ that the water
19 system has no MCL violations and is providing water which meets the water
20 quality standards of the SDWA;
- 21 • that any rate increase granted shall be interim and subject to refund, if the
22 Company misses any of the bacteriological tests between the effective date of
23 this Decision and December 31, 2002;
- 24 • that the Company shall maintain a usage log on the Fire Department's water
25 use each month to help determine losses due to unaccounted for water;
- 26 • that the Company shall reduce its unaccounted for water to a maximum of 15
27 percent by the next rate application, but preferably ten percent. If unaccounted
28 for water cannot be reduced to ten percent, then the Company should provide a
detailed explanation as to why it is not cost effective to do so; and
- that in addition to the collection of the Company's regular rates and charge, the
Company shall collect from its customers the proportionate share of any
appropriate state and local taxes as provided for in A.A.C. R14-2-409(D).

CONCLUSIONS OF LAW

1. Applicant is a public service corporation within the meaning of Article XV of the
Arizona Constitution and A.R.S. §§ 40-250 and 40-251.
2. The Commission has jurisdiction over Applicant and of the subject matter of the
application.
3. Notice of the application was provided in the manner prescribed by law.

Monthly Service Charge for Fire Sprinklers:

1	4" or Smaller	***
2	6"	***
3	8"	***
3	10"	***
4	Larger than 10"	***

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

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

*** 1% of Monthly Minimum for a Comparable Size Meter Connection, but no 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.

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on the first day of the month following Morrystown Water Company, Inc. filing, with the Director of the Commission's Utilities Division, written documentation from the Maricopa County Department of Environmental Services or the Arizona Department of Environmental Quality, that it is providing water with no maximum contaminant level violations and that meets the quality standards of the Safe Drinking Water Act.

IT IS FURTHER ORDERED that Morrystown Water Company, Inc. shall notify its customers of the rates and charges authorized hereinabove and the effective date of same by means of an insert in its next regular monthly billing statement following the month in which it files the required environmental quality documentation.

IT IS FURTHER ORDERED that Morrystown Water Company, Inc. shall comply with all Staff recommendations which appear in Findings of Fact No. 23.

IT IS FURTHER ORDERED that the above-described rate increase shall be interim and subject to refund if Morrystown Water Company, Inc. fails to maintain its bacteriological testing schedule from the effective date of this Decision until December 31, 2002.

IT IS FURTHER ORDERED that Morrystown Water Company, Inc. shall file, within 15 days of sending notice to its customers, with the Director of the Commission's Utilities Division, a copy of the notice sent to its customers.

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1 SERVICE LIST FOR: MORRISTOWN WATER COMPANY, INC.

2 DOCKET NO. W-02164A-00-0928

3
4 George C. Charles
5 Secretary
6 MORRISTOWN WATER COMPANY
7 P.O. Box 156
8 Morristown, AZ 85342

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

14 Deborah Scott, Director
15 Utilities Division
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